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H.R. 2634, THE JUBILEE ACT FOR RESPONSIBLE LENDING AND EXPANDED DEBT CANCELLATION OF 2007

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BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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H.R. 2634, THE JUBILEE ACT FOR RESPONSIBLE LENDING AND EXPANDED DEBT CANCELLATION OF 2007

Thursday, November 8, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Moore of Kansas, Green, Cleaver, Bean, Moore of Wisconsin, Sires; Bachus and Bachmann.

The CHAIRMAN. We will begin. Our senior Republican, who is of course one of the major sponsors of this program both in the past and today, will be joining us shortly. We are returning to a subject in which this committee has played a leading role, and it is time to resume that role.

It was members of this committee—our former chairman, Mr. Leach, whose picture is appropriately there to my left in the rear; the current ranking member, Mr. Bachus; the gentlewoman from California, the chairwoman of the Housing Subcommittee; and myself—who pushed for this to happen in the first place over the objection of many, including people in the Clinton Administration, and it was frankly one of the rare times in recent years when both the Republican House leadership and the Clinton Administration were overruled by a vote on the Floor of the House. The religious communities also participated strongly, and the four of us worked on this, and we are back at it.

Let me say that I think the moral case for debt relief is almost self-evident. No matter what you think about past practices, and in many cases, past practices were wrong on the part of the borrowing countries, on the part of the lending institutions in countries, whatever you think, sadly today, overwhelmingly the victims are innocent people, residents of these countries, and our job is to alleviate their misery. There is a great deal of talk about how we go forward with economic development, and there are legitimate concerns about that. But there is no room for any intellectual doubt that getting rid of this overhang of debt is an essential precondition to any progress.

And so the committee is resuming this. We take a good deal of heart from the fact that—well, let me put it this way. It is a common lie for people to say that they do not like to say, "I told you

so." In my experience, everybody likes to say, "I told you so," and in fact, personally, I can say—and people have heard me say this before—that it is one of the few pleasures that improves with age. And those of us on the committee, and I'm joined by the gentleman from Alabama who is one of the leading advocates of it, those of us who were in the lead on the debt relief previously can say, "We told you so." It has worked well. It has been very helpful. It has been one of the most—given the situation in Africa and some other places, it's hard to say it was a positive thing, but it did more to diminish the negatives that we confront than any other single thing I can think of.

So, we think it worked well enough for us to do it again, and we will be pushing the governments, the international financial institutions, to move forward with that. I very much welcome this panel, and it is the beginning of a serious legislative effort, once again, in a bipartisan way, and you will see this committee, I believe, pushing forward with this. With that, I will recognize the gentleman from Alabama, the ranking member, who as I said—when we did this the first time—was one of the leading sponsors and advocates, and he continues to be in that category. Mr. Bachus.

Mr. BACHUS. I thank the chairman. I thank you for holding this important hearing on the Jubilee Act, and for your leadership, as well as the leadership of Subcommittee Chairwoman Waters. I welcome the witnesses. Many of you, we've worked together, worked with our colleagues on debt reduction and poverty alleviation legislation for the poor countries of the world, for nearly a decade now. And I'm happy to say that those efforts have been remarkably successful.

Mr. Chairman, as you know, myself and many of my colleagues on this committee took part last month in a fast in support of the Jubilee Act. The momentary hunger that I felt was nothing like the courageous weeks-long fast of Reverend David Duncan, of course. But fasting for one day cannot begin to compare with the constant hardships and the pangs of hunger experienced daily by millions of little boys and girls and even their parents and their families, who were born into what seems to be perpetual poverty, disease, and hunger in dozens of countries around the world.

Congress can be a tough environment, and we say on occasion that we had a really bad day, a tough day. But we ought to be reminded that for billions of people throughout the world, that even on our worst days, we have more food, more shelter, more clothes, more security, more healthcare, and more of everything than our poor brothers and sisters have on their best days.

In debating debt relief, I've often quoted Sister Rebecca Trujillo, a nun in Nicaragua. She was asked, "How do the poor get through the day? How do they survive?" Her answer was, "Often they do not."

Mr. Chairman, we started something big with the Jubilee movement. NGOs, our witnesses, millions of people around the world joining together to make a historic commitment to debt relief in the year 2000. Since then, there has been even more or further debt forgiveness on the part of the G–8 nations. In countries where debt relief has been implemented, debt is down by two-thirds, and

spending on reducing hunger and improving health, education, and social services is now 4 times the size of the previous debt payments.

Since the start of the new millennium, the poverty rate in sub-Saharan Africa is down 6 percent. There are more children receiving healthcare and medical treatment, in fact, over a million more children in that area alone. Vaccinations are up, and throughout Africa, the percentage of students enrolled in primary school has gone up significantly.

The Jubilee Act will build on those successes by making it possible to cancel the debts of up to 25 countries that are not now eligible for debt relief. Debt relief has improved the lives of millions of people at almost no monetary cost to the United States. If the Jubilee Act is successful, the U.S. share of debt reduction for the nine or so countries that would be eligible immediately would be $100 million. That's less than 50 cents apiece for every man, woman, and child in this country. Surely the most generous country in the world can afford a commitment of 50 cents.

Doing the right thing is the imperative here. But even if we consider cost, let us realize that the cost of not acting is not only hopelessness and unrest throughout the world, but also an increased threat of terrorism. Poverty breeds unrest and instability and creates the types of conditions that allow dictators and terrorists to survive and thrive. So, combatting global poverty is clearly in our own economic and national security interest.

Debt relief is not the total solution to poverty, hunger, and disease, but it is a necessary first step. It is where the journey should begin to free these countries of the burden of debt, the chains of poverty, and the shackles of despair and enable them to minister to the economic and social needs of their citizens. Accordingly, I will continue to work with my colleagues to advocate this legislation both in the committee and in the House as a whole.

I yield back the balance of my time, and I again welcome our witnesses.

Ms. WATERS. [presiding] Are there any other members who wish to make an opening statement? If not, I will recognize myself for 5 minutes. First, I'd like to begin by thanking Chairman Barney Frank and Ranking Member Spencer Bachus for organizing this hearing and for their support of the Jubilee Act. I also would like to thank the Jubilee Movement for all of their efforts over the past 10 years to cancel the debts of the world's poorest countries.

The Jubilee Movement is one of the most outstanding humanitarian efforts I have seen in my entire career. Over the past 10 years, Jubilee has convinced Members of Congress, officials of the Clinton and Bush Administrations, and political leaders from around the world to cancel poor country debts. I'm so proud of my affiliation with the Jubilee Movement because it brought the needs of the world's poorest people to the attention of the world's most powerful leaders.

I introduced the Jubilee Act to cancel the debts of additional needy and deserving poor countries and to ensure that the benefits of debt cancellation will not be eroded by vulture funds and irresponsible lending. Because of the tireless efforts of Jubilee Movement activists, the Jubilee Act now has 86 cosponsors. I look for-

ward to hearing the views of the witnesses on how the Jubilee Act can be effectively implemented and how it will benefit the world's poorest countries and their people. I'm not going to get into the details of the Jubilee Act, because I know that is what the witnesses are here to do, but I request unanimous consent to have my complete statement included in the hearing record. And so without objection, it is so ordered.

Without further delay, I will yield back the balance of my time, and we will now hear from our witnesses: Mr. Neil Watkins, national coordinator, Jubilee USA Network; Ms. Emira Woods, co-director, Foreign Policy in Focus, Institute for Policy Studies; Mr. Gerald F. Flood, counselor, Office of International Justice and Peace, U.S. Conference of Catholic Bishops; and Mr. Aldo Caliari, director, Rethinking Bretton Woods Project, Center of Concern. Thank you for being here, and we will start with Mr. Watkins.

STATEMENT OF NEIL WATKINS, NATIONAL COORDINATOR, JUBILEE USA NETWORK

Mr. WATKINS. Well, thank you, Congresswoman Waters. And before I begin, I would just like to offer a profuse thank you on behalf of the entire Jubilee Network to Chairman Frank, Ranking Member Bachus, and Congresswoman Waters. Your tireless leadership and support on debt cancellation has truly been a blessing, and you have all been long-time champions. We are really grateful for your leadership and all of this committee's leadership in addressing the crisis of international debt.

I want to begin my testimony with a story about how debt cancellation works in Zambia. Earlier this year I had the opportunity to see the impact of debt cancellation firsthand when a Jubilee delegation visited the Siavonga Rural Health Clinic in the Zambian countryside. As we toured the clinic, Grace Chibanda, a pharmacist, showed us the pharmacy, which was full of anti-retroviral drugs for HIV/AIDS. Debt relief is a good thing, Grace told us. It is getting medicines for people who didn't have it before.

Zambia is using its debt cancellation savings of $23.8 million in 2006 in part to eliminate user fees for healthcare for impoverished people in rural areas. This means that an unpayable fee no longer stands between Zambia's poorest people and basic health services. Nurses and doctors we talked with confirmed that they had seen an increase in patients after the user fees were removed. It was truly inspiring to see the impacts of debt relief firsthand and to know that the relief is getting to Zambians who need it.

In another example, Tanzania is also putting its debt savings to work, sending two million children to primary school. Since 1996, more than 30 countries have received some form of debt relief. Twenty-two nations have reached what is called completion point in the IMF and World Bank's Heavily Indebted Poor Country or HIPC initiative, and they have received now 100 percent cancellation of eligible debt stock.

Debt cancellation committed under these programs to date is expected to reduce the debt stock of the 32 HIPCs, eventually canceling a total of $96 billion in debt under the Multilateral Debt Relief Initiative. This year alone, annual debt service savings from the MDRI will amount to $1.3 billion, almost all of which will go

directly to fighting extreme poverty around the world. Congress and the Administration have each played important roles in achieving a bipartisan consensus for debt cancellation and should be proud of what has been accomplished so far.

As supporters and advocates of debt cancellation, we must continue to be vigilant, to ensure that proceeds from debt cancellation reach the most impoverished people, but we are encouraged by the positive impacts of debt relief on the ground.

Debt cancellation now has a 10-year record of success, and it is a proven tool to fight global poverty. But even after the debt cancellation provided to date, the world's most impoverished nations continue sending $100 million each day to the United States, the IMF, the World Bank, and other creditors. A majority of the world's impoverished countries remain mired in a debt crisis. A 2007 study of 41 poor countries that had not reached completion point in the HIPC initiative found that most of these countries were actually paying more on debt servicing today than they were in 1996. These are funds and payments that could be going towards meeting the millennium development goals.

That is why we are saying that it is time to extend the promise of debt cancellation. The UK government has already begun to extend debt relief to impoverished countries who don't qualify for the HIPC initiative but who have proven that they can spend the money well and who need the relief to meet the MDGs.

The Jubilee Act is modeled after this initiative and would extend debt cancellation to well-governed countries that need it to fight poverty. The Act could initially expand debt cancellation to nine more countries and ultimately could add 15 beyond that.

One of the countries that could benefit is Kenya. When I traveled to Kenya earlier this year, I saw crushing poverty similar to what I saw in Zambia. In Kibera, Africa's largest slum, we met children, parents, and community leaders. One of the people I will never forget was a 13-year-old girl named Mary, who was orphaned by AIDS. She dramatized and recited two poems for us while we were there, one about the devastation of AIDS for her and the people of Africa, and the other about AIDS leaving her and her other young friends without parents. Her strong spirit and resilience shone through as she spoke and moved to the rhythm of her powerful words. I didn't see the progress in Kenya, however, that I had seen in Zambia. Why? In part, because Kenya does not qualify for the current debt relief initiative, despite its strong need and improving public financial management. They don't qualify despite the fact that Kenya spends more servicing debt than on healthcare or water.

Expanded debt cancellation can make a real difference for people in countries like Kenya and elsewhere. As we expand debt cancellation, however, we must be careful to learn the lessons of the past 11 years. We need to work for more responsible lending practices in the future and make reforms in the way debt cancellation is delivered by removing harmful conditions that are undermining the promise of debt cancellation.

To conclude, the Jubilee Act is the smart thing to do. Debt cancellation is an effective and tested strategy for fighting poverty,

and it is a good investment in our security and our image abroad. It is also the right thing to do.

Thank you.

[The prepared statement of Mr. Watkins can be found on page 46 of the appendix.]

The CHAIRMAN. Next, Ms. Woods.

STATEMENT OF EMIRA WOODS, CO-DIRECTOR, FOREIGN POLICY IN FOCUS, INSTITUTE FOR POLICY STUDIES

Ms. WOODS. Good morning, Chairman Frank, Ranking Member Bachus, and Subcommittee Chairwoman Waters. It is an honor to be here with you today. I really want to begin, as Neil began, by thanking you for your steady, sustained, and moral leadership on this issue. It is your bipartisan leadership that has brought already such tremendous strides on debt relief.

My primary focus today will be to explain how I feel so strongly that debt cancellation should be granted without harmful conditions of past debt initiatives. My testimony is based on both my professional and personal experiences. I'm originally from Liberia and have seen firsthand the painful burdens of debt not only throughout the continent, but even in my own family.

Congress and the President, together with your leadership, took a huge step forward 10 years ago when they stated that it was a moral imperative to give poor people in poor countries debt relief. Through your leadership, the burden of repaying debts incurred by rich and often irresponsible leaders began to be lifted. Yet today, we recognize that the bold steps forward from a decade ago did not go far enough. Previous schemes left out many eligible countries and also had onerous strings attached, conditionalities.

The Jubilee Act before you today will extend debt cancellation to all impoverished countries that need relief to meet their millennium development goals. On average, low-income countries spend about $100 million a day just to pay interest on their debts, vital resources that could be spent on essential services. The Jubilee Act will bring relief where debts incurred by dictators and also debts that have been paid many times over through high interest payments can be relieved.

I'd love to begin by sharing with you the story—it's a very difficult story—of my cousin, now 22 years old. For the sake of this testimony, and to protect her identity, I'll call her Anna. Anna and I met 2 years ago when I went home to Liberia after the decades of war. Anna had also just returned home after living much of her life in a refugee camp in Ghana called Bujumbura. At 20 years old, Anna had already experienced more of the direct impact of debt and conditionalities than a roomful of economists. My aunt and uncle had left Liberia for Ghana on foot when the war started in 1990. Anna was just 5 years old. The ruthless dictator, Samuel Doe, accrued debt as he used U.S. taxpayer monies from the Reagan era as "loans" to train and equip an army that he then unleashed against primarily innocent civilians. Charles Taylor unseated Doe and continued the ruthlessness until over 250,000 Liberians had been killed and Does' debt had ballooned to $3 billion.

Ghana, where the camp was, had approved its first Economic Structural Adjustment Facility loan in May of 1995. In that year,

the agreement led Ghana to begin selling off—privatizing—14 state-owned enterprises. Massive job losses in Ghana airways, Ghana railways, and the Electricity Company of Ghana, among many others, were the result. With Ghanaians forced out of jobs, the job market for Liberian refugees was of course much worse. My aunt and uncle could not find work in spite of their graduate degrees. Little Anna, then barely 10 years old, could no longer go to school. This was because of the conditions of the international financial institutes which actually imposed user fees on the students at community-level schools in Ghana at that time.

At the age of 13, my cousin practically lived in the streets. On Sunday afternoons, as my aunt went to church, Anna and other teenage girls would parade around the camp, scantily clothed, waiting for older men, many of whom did not live in the camp, to solicit them. This was their employment since school was no longer an option. When we met 2 years ago, Anna had two children, the eldest born when she was just 15 years old. Anna returned to Liberia, ready to start her life anew. But as Liberia repays its debt to the international financial institutions, there are no functioning hospitals. I fear that Anna may be one of the many undiagnosed yet living with HIV/AIDS, and the same conditionalities that denied her an education may now keep her from treatment, unless Liberia and many other countries in Africa and throughout the developing world can spend their scare resources on health, education, and basic services for their citizens, Anna's children, and many other children throughout the continent will continue to pay the heaviest price for the debt of dictators and the conditionalities of the international financial institutions.

We know that this story is repeated throughout the continent. We recognize also the harmful impact of conditions throughout the continent. Many claim that the international financial institutions no longer impose these conditionalities. We have clear evidence from countries throughout the continent that in fact privatization of core industries, as well as liberalization of opening up of markets, particularly financial and banking sectors, continues today.

We are incredibly concerned that unless the conditions, the harmful macroeconomic conditions attached to these initiatives are removed, there will continue to be disastrous implications even as we advance debt relief.

There are many instances that we would love to share; I wanted to talk in particular about Mali. Mali, which had conditions tied to its poverty reduction strategy papers and its PRGF, the Poverty Reduction Growth Facility arrangement with the IMF, those conditions included water, banking, telecommunications, and agriculture, especially in companies dealing with cotton, Mali's biggest export earner. Mali sold off its rights to the French company SAUR in 2000. The process forced impoverished communities to pay for the first time for access to clean water.

In a few short years, there were numerous complaints about mismanagement and claims by the Malian government that the companies had failed to run the water services according to contract. By 2005, the Malian government re-nationalized water and yet was seen as "off track" by the IMF.

Countries that go a different path from the IMF are actually threatened not only from being tossed out of debt relief schemes but also from accessing other core financing from the development community. It is this stranglehold of the IMF through conditionalities that we must end.

I urge this committee to support the Jubilee Act to fix the flawed debt relief by canceling odious debt, by eliminating harmful conditionalities, and by advancing steadfastly towards an Africa, Latin America, Asia, a developing world where people can pursue, health communities can pursue education for their children, can live lives of dignity.

I believe this is what you all as members of this committee intended when you advanced debt relief a decade ago. If we take the necessary steps now to remove harmful conditionalities, we can meet your moral imperative of lifting the burden of debt for Africa and for much of the world.

Debt has kept Africa in bondage long after the end of slavery and colonialism. This legislation could help break those chains. It won't solve all the problems of the world's poorest country, and it won't give my cousin back her childhood, but it will give these struggling nations a better chance of building strong, secure, and healthy societies.

Thank you.

[The prepared statement of Ms. Woods can be found on page 61 of the appendix.]

The CHAIRMAN. Next, we have Gerald Flood.

Mr. Flood.

STATEMENT OF GERALD F. FLOOD, COUNSELOR, OFFICE OF INTERNATIONAL JUSTICE AND PEACE, UNITED STATES CONFERENCE OF CATHOLIC BISHOPS

Mr. FLOOD. Thank you, Mr. Chairman. Mr. Chairman, and members of the committee, I would like to thank you for the opportunity to testify here today. Debt relief for poor countries has been a high priority for our Bishops Conference for many years. In my testimony I will be focusing on a number of issues at a level of technical detail which the Bishops would not normally address and on which therefore they would not have a position. Thus I offer my testimony primarily as a former development agency official who has worked on debt and related issues with both the World Bank and the Bishops Conference over quite a few years.

I would like to begin by reiterating the expressions of thanks and appreciation which have already been mentioned by the previous witnesses, especially to Chairman Frank and Representatives Bachus and Waters for their strong and untiring, faithful—I don't know how many adjectives one could find to adequately express the leadership which they have exercised over many years in an effort to bring debt relief to millions of poor people in low-income countries around the world.

Before getting to some of the issues, I had wanted to mention one specific case showing how the HIPC program is enabling Catholic Relief Services and a broad group of allies in Cameroon to lead a path-breaking effort to unite sustainable forestry management with

rural community development throughout the country, but time won't permit, so I refer you to my written testimony on this.

In looking at H.R. 2634, some members of the committee may be wondering why additional debt cancellation is necessary when so much debt relief is already being provided under HIPC and the more recent Multilateral Debt Relief Initiative. The problem is that there are a substantial number of poor countries that are not eligible for the HIPC program, let alone the MDRI.

The disparity of treatment between HIPC countries and non-HIPC countries became clear when the World Bank and IMF conducted an examination of so-called "debt sustainability" in the poorest countries, the so-called IDA-only countries, the countries that are only allowed to receive from the World Bank funds from their most concessionary arm. The primary objective of the exercise was to determine which countries should receive their future IDA financing either wholly or partially in the form of grants. When the exercise was conducted in 2005, it showed that 42 countries were at sufficiently high risk of debt distress to be eligible for grant financing, instead of the usual loans. The list included 29 HIPC countries plus 18 other countries. This meant that there were 18 non-HIPC countries rated as having a risk of debt distress equal to or greater than the HIPC countries. Like the HIPC countries, now they were going to get some grants going forward. But unlike the HIPCs, they would get no debt relief.

One of the 18 non-HIPCs in this list is Lesotho, which reminds me of a remark made by the country's finance minister when he learned about the MDRI debt cancellation agreement. He told Reuters that one of the reasons Lesotho was not classified as an MDRI country was it had never defaulted on its debt. It is important, he said, that those who have paid their debts well, who run their mega-finances well, should be rewarded with debt forgiveness.

The debt cancellation provisions of H.R. 2634 would address the concern expressed by the minister and bring deep debt relief within the reach of virtually all of the world's poorest countries. Some will note that the IDA-only criterion for eligibility under the bill will capture some countries with relatively low levels of external debt. Assuming one accepts the debt sustainability analysis as fully valid, and there are some questions about it, in determining really whether these countries who are so-called not at high risk of debt distress really are in bad shape as far as their debt, the fact is that however you slice it, the countries, all of these countries are ones with very high levels of poverty, and thus they need to maximize the amount of resources that they can marshal to promote human development and move toward the millennium development goals for reducing poverty.

We believe that the IDA-only requirement is a reasonable standard for determining which countries should be eligible for debt cancellation. I would also like to address briefly the cost of the debt cancellation. I have made a rough estimate of the amount of funds the United States needs to commit through the next three IDA replenishment periods—Fiscal Year 2008 through Fiscal Year 2017—in order to finance the cost of the debt cancellation. I'm unable to provide a firm estimate because much of the information required for an accurate estimate is not publicly available. My rough esti-

mate then is that the cost to the United States would be roughly $1.5 billion for the 3-year IDA 15 period, from Fiscal Year 2008 to Fiscal Year 2010, and that would mean an average of about $500 million a year. In the next IDA replenishment period, the figure would rise to $3.5 billion. The reason for that is the assumption that Bangladesh would come in during that period to debt cancellation and they have a very high level of multilateral debt. And then in the following 3 years, it would drop to $2.4 billion, and the figure for future years would drop still further.

Just a reminder that we're talking about debt that is going to become payable over the next 30 to 40 years, because these are very long-term debts. And what we're talking about is the cost of reducing or eliminating the need for these countries to pay their debt service each year over these 40 years. This is why the cost has to be calculated over a long period of time.

An important assumption is that IDA and the other international financial institutions would be replenished dollar-for-dollar for the foregone principal and interest payments of the debt canceled. This is the principle adopted for the MDRI and would be in line with the requirement of additionality contained in Section 3 of H.R. 2634.

Other assumptions are explained in my written testimony, which also explains that the cancellation schedule I have assumed may slip substantially, resulting in lower initial costs and lower overall costs. And if, as likely, Vietnam does not apply for cancellation, this would also reduce costs considerably. There's much reason, therefore, for expecting that the estimate could be revised downward as more information becomes available.

Thank you for your attention.

[The prepared statement of Mr. Flood can be found on page 38 of the appendix.]

The CHAIRMAN. Mr. Caliari?

STATEMENT OF ALDO CALIARI, DIRECTOR, RETHINKING BRETTON WOODS PROJECT, CENTER FOR CONCERN

Mr. CALIARI. Thank you very much, Mr. Chairman. It is an honor for me to have the opportunity to testify today before this committee. I am going to be focusing on the provisions of the Jubilee bill that address responsible lending and borrowing. I am going to talk about the rationale for those provisions, some of the futures of the currency system, which I would argue discourages responsible lending, and I am going to talk about how the provisions in the bill will improve over the current system in different ways that I am going to explain.

Mr. Chairman, members of the committee, the unfinished agenda on debt that the Jubilee Act addresses involves an expansion of debt cancellation, but we are also aware that if we want these, as well as the recent round of debt cancellation, to have lasting effects, we also need to look at the way ahead. That is why provisions in the bill to ensure responsible lending and borrowing are an inseparable part of this unfinished agenda on debt.

Why is this important? Because the promotion of debt cancellation in impoverished countries comes from the belief that debt cancellation can free resources currently spent in servicing debt for

productive and social spending that are required in those countries. However, if after the cancellation, debtor countries engage again in excessive borrowing, we will soon be back in the same situation where social and productive spending is curtailed by large amounts of debt service. Jubilee is also concerned with ensuring that the affected population has a say in the process of public debt generation. In the past, too many debts were taken on via mechanisms that were non-transparent, non-accountable, and, ultimately, of little benefit to the population in the indebted country.

Today, the gains that a number of low-income countries expected to achieve through recent debt cancellation are starting to be eroded. There are two main concerns I want to raise in this regard.

The first is that the debt levels of countries benefitting from debt cancellation are rapidly rising again because of new borrowing on a non-concessional basis. This concern has been underscored by the G–8 and the international financial institutions. There are a number of creditors that have not participated in debt cancellation that may actually free-ride on the cancellation, that is take advantage of the newly attractive debt profile of countries receiving debt cancellation for providing financing on a non-concessional basis.

This dynamic is especially acute in beneficiaries of the Multilateral Debt Relief Initiative. The lower debt ratios of the beneficiaries in this initiative put them back in a position where they represent an attractive debt profile. After the MDRI, this is, excluding new lending after the MDRI, the debt stock ratios in most recipient countries will be significantly lower. In this situation, creditors that may not have participated in the debt relief effort may seek to profit by lending on a non-concessional basis.

This non-concessional financing comes mostly from bilateral creditors not in the Paris Club, or emerging creditors, such as China, Brazil, India, Korea, Kuwait, etc., but there is also considerable non-concessional financing that comes from export credit agencies that are ironically in OECD countries. These are the same countries that are providing, on the other hand, the relief.

Also, there are, of course, commercial credits and bonds. Some of these countries are now able to issue instruments in the international capital markets, something they were not able to do before.

Second, the threat to the gains from debt relief comes from litigating creditors, such as "vulture funds." These are creditors who profit by buying cheap sovereign debt in secondary markets and then maximize recovery via litigation and other pressure mechanisms. And it is a key reason why the debt these vulture funds bought cheaply now has become something that they can sue for in a higher amount, the reason to this is the debt cancellation received by some of the debtor countries on the other side of these contracts.

So what about the current system? Do we have a current system to stop unsustainable, irresponsible debt? Well, to prevent countries receiving debt relief from falling back into debt due to non-concessional borrowing is that the international financial institutions adopted 2 years ago something called the Debt Sustainability Framework. And in Annex 1 of my statement, you will find a summary of how the framework works. The framework has as a pur-

pose to determine how much new borrowing on a non-concessional basis low-income countries can incur. And based on a number of factors, it assigns a debt threshold to each country and it is assumed that the financial needs of those countries that go beyond that threshold need to be satisfied via grants. This framework is what we can say the current system is doing to discourage unsustainable lending, and it is quite ineffective and unfair, especially to the debtor but also, and I have to say this, for many of the creditors, for a number of reasons.

What the system does is, with regard to the creditors, the international financial institutions are doing outreach to foster a culture of coordination around the framework. It is no surprise that this is proving quite difficult. In fact, the rate of success of the HIPC initiative to bring onboard non-Paris Club creditors was very low. Why would anybody think that the creditors would suddenly put their heart into joining an initiative where they have to match even more debt relief? If anything, the incentives out there for them to do that are exactly the opposite. There is more debt forgiveness at stake, so creditors that are not part of the initiative can profit even more from staying out of it and even lending on a profitable basis to countries whose debts have been wiped out. At the same time, international financial institutions would sanction the debtor. Either reduce the grant allocations or give assistance in harder terms to countries that are found to be borrowing beyond their acceptable debt ceilings.

Now how effective is this? Everybody knew at the time of establishing the Debt Sustainability Framework that in order for it to work, countries were going to need a significantly higher volume of grants than before. Now, if you know what has been happening with grant assistance, it has been going down. So discretionary grants is why countries go around to get funding on a non-concessional basis and the solution to this is that they say, "Okay, if you do that, we will cut your grant allocation further." Well, of course, this is only going to worsen the problem and the creditors know it, and I quote in my testimony documents from IDA that leave no doubt that this is known by the creditors.

So what we are proposing is a package of measures that we believe will significantly improve the current situation. Chief among these measures is that the bill calls on the executive to seek the international adoption of a binding legal framework that guarantees that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of their new lending to beneficiary countries. The way these measures will stop irresponsible lending is of a striking simplicity: It is based on setting the incentives right for new lending and borrowing. This is why it needs to be a binding framework; a mere code of conduct would not realign the incentives. If unsustainable lending occurs and the debtor needs debt forgiveness in the future, the creditor that engaged in unsustainable lending will have to take an equitable share in the burden of the losses. So every creditor lending to a country has an incentive to make sure its lending is not above what the borrower can safely undertake, which is exactly the opposite of today where creditors that typically do not provide debt relief have every incentive to lend above safe levels,

knowing that they will be protected in the event debt forgiveness is required.

The hope, of course, is that no new debt forgiveness will be necessary. This is the beauty of this measure, that it is first and foremost a preventive measure.

Mr. Chairman, the bill also contains measures on transparency, the availability of grants, and measures dealing with vulture funds. I will be happy to address them in a question and answer session. With that, I will finish.

[The prepared statement of Mr. Caliari can be found on page 26 of the appendix.]

The CHAIRMAN. Thank you. I neglected to ask unanimous consent that all the written statements be put into the record in their entirety, along with any other material the members might like. I will begin the questioning with our colleague from California who has been a consistent leader on this issue.

Ms. WATERS. Thank you very much, Mr. Chairman. And I would like to thank all of our witnesses who are here today helping us to understand more and more about debt relief. I would like to address a question to Ms. Woods. The Jubilee Act would eliminate harmful economic conditions for debt cancellation in the future, but this will not undo the harmful effects of IMF conditions on countries that have already received debt cancellation, countries like Mali and Ghana, which you described in your testimony. And I have to share with you that many of our members are very proud of complete debt relief, but they do not understand how it could be that a country could receive debt relief and find themselves worse off after they have gotten the debt relief than before. You talked about the conditions that are placed on getting this debt relief. Could you describe a little bit more how some of these conditions create more poverty, and would you describe how this Act could help with that problem?

Ms. WOODS. Thank you so much for that brilliant question. I think it goes to the heart of the matter. The issue is that the conditions attached to the Debt Relief Initiative actually first take away the space for developing countries to choose their path to development. That is the first problem. It is inherently undemocratic because essentially you have institutions based in Washington telling countries what they should prioritize in their spending, so it all sounds like tossing words around, "privatization," and "liberalization," but essentially what is happening is that countries around the continent have their citizens paying taxes. So if you take for example Mali, citizens may be paying taxes and may assume that key services like water which have been provided in the past would continue to be provided through their taxes, but instead the IMF says, "No, sell off your key industries to the highest bidder." And it is often the multinational corporations that are swooping in and saying we can manage those services better.

It is based in a political argument that says government should be shrunk, that services should be provided by corporations, and so what is happening is corporations are coming in but as we see in example after example, corporations are not necessarily doing it better. We do not have to go to Mali, we can look right here in D.C. at healthcare as one example to see that it is not always the pri-

vate sector that does the best job, right? So that is a broader argument but in the African continent, it impacts people's lives in a more desperate manner because people are already after decades of resources being extracted, even in wealthy countries, relatively wealthier countries like Nigeria, oil is flowing out of communities that have no schools, no hospitals, not even decent housing. So as corporations are coming in with their search for profits, ignoring communities, the services are not necessarily being provided better, and yet it is almost as if people are being asked to pay more. So the intent in seeking out the moral imperative of debt relief was to actually lift the burden off of poor communities but in fact what you have is the selling off of core services, which means people are forced out of their jobs as those services shrink, and also people have to then pay for those services to be provided. So whether it is telecommunications or water or healthcare or education, it is people already at the brink who are paying the heaviest price.

Ms. WATERS. Thank you very much.

Ms. WOODS. Thank you.

The CHAIRMAN. I would just interject briefly that there is a lot of debate about the place of morality in politics, today we are talking about morality in politics, and I think we should in the deepest sense. The gentleman from Alabama?

Mr. BACHUS. I would like the panel to just comment if you would on the "vulture funds," and what would be the most effective way to counter their negative activities? One thing I am concerned about is in the bill we propose to give the countries that are subject to suit or are targeted by the vulture funds to make legal counsel available to them or legal advice in combating these things, I am wondering about is that the most effective? I think that is obviously one of the things we should do. And are we going to be successful in court or are they going to be successful in court in fending these funds off, and that there are contracts, as much as we hate that fact? But any comments you would like to make just to inform us?

Mr. WATKINS. Yes, thank you for that important question. The vulture fund issue is not new. The original vulture cases actually happened in the 1990's. But, unfortunately, in the past year, actually we have seen an up-tick in the number of cases, perversely because the countries that have gotten debt relief now have money, more resources, and so the creditors are saying, well, this is a good opportunity to swoop in. It is a really perverse system.

A couple of things, you mentioned the language in the bill, which would basically ask the U.S. Treasury Department to provide greater legal and technical assistance to countries. I think that is an important first step, just so that countries know what their options are when they are faced with these sort of suits. Another approach, which could help in the short term, would be the World Bank actually has something called the Debt Reduction Facility, which buys back at-risk private debt from poor countries. So what that can do is, and it has done, is actually take debts, which are not yet the subject of lawsuits, and actually buy them back from the private sector so that it sort of takes that off the market. So there are a couple of—basically that fund could be increased.

There are a couple of policy changes that could happen. The fund could be made available to pre-decision point countries. One of the countries right now that we are very concerned about with the vulture fund issue is Liberia, and we think that Liberia should have access to this sort of support. And basically countries should be able to go back more than once to this fund if they again see that future debts are threatened by these lawsuits. So those are I think what is in the bill and some work around the Debt Reduction Facility could help in the short term. Ultimately though the reality is that two-thirds of these suits, these lawsuits that have happened, have been brought in either the United States or the United Kingdom. So if we are going to address the problem at its root, we need to look at I think legal changes in the United States and look at a way to address the problem of U.S. courts, that a lot of these cases in fact are happening right now in courts in the United States.

Mr. BACHUS. Mr. Caliari?

Mr. CALIARI. Thank you very much for that question. Just to complement what Neil was saying, just to emphasize, some of the measures that are in the bill, as Neil has said, are short term, not only short term but in fact when you are talking about for example providing financing for countries to be able to buy back the debt from these vulture funds, what you are basically doing is also subsidizing an activity that in the first place is morally questionable—for example, just take the case of Zambia, when they bought debt at $308 million and then sued for $55 million and the court then did award them $15 million. So probably in a case like that, what you would have had if the country had been able to buy that debt, it is buying the debt for the $55 million, right, just to stop the threat. And that is not ultimately what we want to do, although in the short term it is necessary. But in the long term, I just want to emphasize there is no really way around having a framework, a legally binding framework that will ensure that all creditors have to share equitably on the losses when a country needs debt relief, and this really requires that the bill calls on the executive to pursue, to seek the adoption of this multilaterally binding framework. It is a long-term solution but it is ultimately the only one that is really going to solve the problem.

The CHAIRMAN. We will take the gentleman from Missouri next, and then we will break. There is only the one vote and if the panel—this is a very important issue, so I assume you would not mind waiting? I will come back, and the gentlewoman from Wisconsin, and maybe some others, so we will have time for the gentleman from Missouri to ask his questions. We will be back probably in about 20 minutes. Mr. Cleaver?

Mr. BACHUS. Mr. Chairman?

The gentleman from Missouri went on a fast as part of this effort, and I would like to commend him and he has spoken out very forcefully on debt relief. I would like to compliment him.

The CHAIRMAN. I thank the gentleman for that. The gentleman is recognized.

Mr. CLEAVER. Thank you, Mr. Chairman, and I thank the ranking member. As I read through your testimony, it was, "Damned if you do and a damned if you do." If you do not request financial

assistance from the World Bank and other institutions, you are not going to be able to address the mammoth problems you face. And then if you do receive it and if you repay it, you are going to deepen the mammoth problems that you face. I am not so sure that we should not make corrections on the other end when the loans are being made. The question is this, would it be in the best interest of those nations receiving the largesse from richer nations or the World Bank, if on the receiving end, the repayment period is stretched out years and years and years and years as opposed to trying to repay the loan over a short period of time or the beginning of the repayment of the loan over a short period of time. What we do sometimes in municipal government is that we will lease land to some entity that has a government purpose for one dollar for 75 years, and everybody knows and understands when you do that, that there is a public purpose and so you do not want to burden this entity. So I am wondering, I support debt relief obviously, but I am wondering if maybe we should not do something on the front end to even remove the psychological trauma of wondering how you are going to make it when you have to begin to repay the loan, am I clear? Okay.

Mr. FLOOD. Well, that is a very important question. I think that is a question actually which a lot of these—many of the shareholders of the multi-lateral development institutions have been concerned about in recent years, and I give credit to the Administration; they were concerned about the kind of issue you are talking about. If you take a look at most of this multi-lateral debt, which is the kind of debt we are talking about trying to get canceled, most of it is already on very long term and very low interest. The IDA loans, for example, are 40 years long, and they have a 10-year grace period where you do not have to pay any principal and you only pay a small service charge. The problem is that in spite of those easy terms, these countries still managed over time to accumulate an awful lot of debt and get themselves in an unsustainable position so that they needed debt relief. That was one of the reasons for of course the HIPC program and the subsequent debt relief programs that were developed. But even then, a couple of years ago, the Treasury Department, our Treasury Department, said it is obvious that a country like Niger cannot pay back anything. Why are we kidding ourselves? They are so poor, they are not in a position to be repaying debt. And what happens is you have kind of a lend-and-forgive cycle. The World Bank would make a loan to Niger and then after a few years, Niger would have trouble paying it back, so the World Bank would make another loan so that they would have the funds with which to repay the earlier loan. This is a kind of a never-ending cycle of lend and then not getting paid, so you have to lend again so they can have the money that they can use to pay you back. The money is just revolving in a circle. So they said you have to give them grants, this is what is going to happen. So a lot of these countries now are receiving grant funds, not loans at all from IDA for example, but getting the money without having to pay any of it back. And this is a new feature. The question though is whether the criteria that are used for determining which countries should receive grants are adequate, and this is a debate that goes on. But it is an advance, they

are making an advance in that respect. But there is still the question, for all the countries we are talking about, is even though a lot of them, most of them, are going to be in a position to get some grants going forward, they still have this large overhang of debt from the past, which is hanging over them and which they really need to get rid of.

Ms. WOODS. So we are all here as member of the Jubilee Network and strong supporters of debt cancellation, 100 percent, no strings. We will keep telling you that daily. I think we are also, and you see it in much of our testimony, recognizing that debt relief is just a small part, an important part, but a part of the picture. Debt relief must be accompanied by changes in trade in particular. If you think about Africa, you should think richness, you should think resources, right? But those resources, whether it is the oil or the uranium, I could go on and on in terms of the richness of the continent.

The CHAIRMAN. Well, you could if we did not have a vote.

Ms. WOODS. Sorry, you have a vote. The point is that debt cancellation is a critical first step. But in looking at the big picture, which your question goes to, we have to also look at changes that will bring a fair trade opportunity so that African countries do not have to continuously go asking for loans but that the richness of the continent can actually benefit the citizens of the continents themselves.

The CHAIRMAN. We are going to have to break now for the vote, but we will come back. There could be a second round. This is a very important subject, and I will be back. The gentlewoman from Wisconsin and other members may also come back and have some further questions. We should be back in about 20 minutes or less.

Ms. WOODS. Thank you.

[Recess]

The CHAIRMAN. We will reconvene. Other members may be back but, as I listened, there are obviously a number of things we want to deal with here, but the vulture fund issue is obviously a tough one for us to get a handle on legally. And I remembered and I checked with my staff, which has been doing such good work, I remembered the proposal that had been forwarded by Ann Krueger at the IMF for some international bankruptcy regime. Would someone get that door, please, and close it? And it does seem to me that if that had been in place, we would be a lot better off. I would be interested in your views about whether you think an international bankruptcy regime would be useful and, if so, what could we do? Obviously, we cannot simply legislate it, but how would we go about pushing for that, should that be part of what we are trying to do in this? Let me start with Mr. Caliari.

Mr. CALIARI. Thank you very much. I think you are absolutely right, ideally an international bankruptcy system would be the way to replicate. I was talking about incentives. What you have at a domestic level in every country is the domestic bankruptcy system where the creditors know that if a debtor goes bad, they are going to have to take some losses, right? There is a system for that. We do not have that system at an international level. What we de facto have is the combined work of different systems that have been created, one on top of the other, to try to develop a solution and the

solution is driven by the creditors alone, so there you have already a significant difference with what happens at the domestic level where there is an independent authority usually issuing judgment. So in the bill we do not go into the details of—we do not say actually it needs to be a bankruptcy system—

The CHAIRMAN. That is why I asked you.

Mr. CALIARI. Yes, okay, we are saying that there is a need to actually address this incentive problem and the only way to address the incentive problem is with a binding legal framework. What you have here is the problem of collective action, where no individual country and no individual creditor would have a willingness to take action on its own.

The CHAIRMAN. No, in fact, they are afraid that they will then be disadvantaged.

Mr. CALIARI. Right.

The CHAIRMAN. It will be a "beggar thy neighbor" situation.

Mr. CALIARI. Exactly.

The CHAIRMAN. Let me go on—

Mr. CALIARI. But just let me say one thing about the SDRM proposal, which you referred to, which actually I am not sure we will be necessarily in a better place because the problem with the SDRM is that it did put the IMF, which is—

The CHAIRMAN. Well, it does not have to be that one.

Mr. CALIARI. Right, exactly.

The CHAIRMAN. That would be the question I would ask people to think about, when we come back, for us in February, let me put it this way: In some cases, if you are afraid bad things are going to happen, you can condition what you are doing and say to people, "Well, do not do that." But you really cannot say to the poor countries, "We are not going to give you the relief," because they are being driven to this. So it did seem to me that is one that we should be thinking out and then how to do it. Mr. Flood, on the bankruptcy issue?

Mr. FLOOD. I guess I have not thought about this for a while, so I am not going to be able to give you a very good answer.

The CHAIRMAN. Okay.

Mr. FLOOD. But I do remember one of the problems with it, the idea floated around for an international bankruptcy system, was that the debtors did not like it. They were afraid that they were going to be thrown into bankruptcy against their will. This would cause them more problems than it would solve. So you had that sort of lack of interest on the part of many of the debtors to get involved with that kind of a thing.

The CHAIRMAN. But would that be curable if it was drafted properly?

Mr. FLOOD. I think it would have to be drafted as a voluntary system.

The CHAIRMAN. Okay. Ms. Woods?

Ms. WOODS. I think the critical thing here is a fair and a transparent process. And, yes, I think there are a lot of us that will quibble with the process that was already presented, the sovereign debt restructuring mechanism,—

The CHAIRMAN. Forget that.

Ms. WOODS. —and we can debate that. But, overall, a process that brings open, transparent discussion so that there are not backdoor deals with hedge funds and other type funds, I think brings up a bit more openness. So what we need is a process where parliaments, where citizens and really everyone can see what is the actual debt and have a more open process.

The CHAIRMAN. I really urge you to start working on that. Frankly, conceptually and intellectually, debt relief is kind of easy, and I think we will put that bill through, but we want to do some of the other things. And also when we do debt relief, we are going to be told about moral hazard, and it does seem to me that the greatest moral hazard here is the absence of a bankruptcy system. That is the license for not worrying about whether people can repay, the absence of a bankruptcy system is probably one of the major ones.

Mr. Watkins?

Mr. WATKINS. I would agree with what other panelists have said, that I think it is a missing feature in the international system right now, that such a system—we are seeing all these problems with vulture funds, with creditors not participating, and that is fundamentally, there needs to be put in place less of a patchwork of these initiatives involving certain creditors here and there and more of an over-arching framework.

The CHAIRMAN. Well, I appreciate that and I really urge you, there is a great deal of expertise here, and I think again some of these questions are relatively easy, although they can become difficult politically. I was struck as I listened, it just occurred to me as my staff briefed me and I listened, that the vulture fund is a very significant issue, and we need to be able to deal with it.

The other question is similar in the sense that we have the people who are willing to discharge their debts may be feeling they are being taken advantage of and that is additional third country lending. So Country A forgives the debt of Country B, and then Country C, as in China, then decides to make more loans. Is there any way we can deal with that or should we? Mr. Caliari?

Mr. CALIARI. Yes, certainly the only way a system like this can work is if it includes all public and private creditors, so in public creditors you have to include a country's lending through different windows also, which is important.

The CHAIRMAN. What is the likelihood of their agreeing, do people have any sense of it?

Mr. CALIARI. Yes, for any measure like this, a request for collective action, you always need a leader, a champion, to start, and so it may take some years. Of course, this is not something that is going to happen tomorrow, but you do need somebody who is going to start. If you wait until everybody agrees to start the process, then it is never going to happen.

The CHAIRMAN. Yes.

Mr. CALIARI. Sorry, and I do not think that has deterred the U.S. Government in the past when there are things that the government feels strongly that need to be pushed at an international level, taking the leadership, finding allies to go ahead and do it, I do not think that has been a deterrent. And so I think it is important that the Congress calls on the Executive Branch to pursue this at the international level.

The CHAIRMAN. Mr. Flood?

Mr. FLOOD. Yes, well, I think that this gets into geopolitical issues, a lot will depend on what China thinks is in its own interest here. If you are talking about China, that is the big player here, but India to some extent as well. But one thought that had occurred to me is that why not try to get them more to the table where they are discussing these issues in a forum where they would be willing to listen and be willing think that perhaps their point of view about how some of these development issues should be addressed would be taken into account, like giving a bigger voice to the board of the World Bank, something like that. That might help, get them sort of—I hate to use the word "co-opt," but get them into the dialogue on all these issues with the others instead of operating independently.

The CHAIRMAN. Ms. Woods?

Ms. WOODS. I think the principle that you are recommending is a good one, and that is for donors to coordinate a bit better and that you do not have the United States coming in, or the United Kingdom coming in with all their protocols and essentially adding demands on the developing countries independently, so some type of better coordination I think is a good principle to move forward. But I think it goes a step further, I think there is also a need for the debtor countries to have sort of a cartel, so to speak, and to be able to come together to kind of map out their plan. And it may be that they are wanting to go to China or Malaysia or a number of other countries that are offering development finance without conditions.

The CHAIRMAN. One of the things I was reminded of by Mr. Caliari is that we, the United States, are in significant arrears to IDA, and so that may be one of the factors driving countries to do this. One of the ways we should deal with this is—and I think we may be writing, some of us, this is our fault, this is not a campaign of the President, this is a congressional problem, we need to do better on the IDA thing. Mr. Watkins?

Mr. WATKINS. Yes, just a bit on that. One of the problems is, as Aldo Caliari mentioned earlier, that countries do not have access to concessional finance, so they are turning to China.

The CHAIRMAN. So the IDA thing would be—

Mr. WATKINS. IDA is a source, more grant-based finance is critical for this move forward. I think the other thing, as we talk about bankruptcy or arbitration processes, the importance of thinking about responsible lending, what does responsible lending practice look like, what sort of standards should be in place so that we do not again accumulate new odious debt.

The CHAIRMAN. Well, I agree but the problem is to deal with responsible lending, you need sort of unanimous consent of the lenders because one irresponsible lender can in fact profit from the others. Let me add this, and then I am going to call on the gentlewoman from Wisconsin, who has been one of our active members who has an interest in this. The governmental responsibilities, that is why we are here, but it does seem to me with some of the lending, when we think about some of the countries, that the non-governmental organizations of civil society can be relevant. It does seem that here is a case where it is a moral persuasion. There are

countries doing the lending that do not want to be thought ill of, that have a self-image that I think you can affect, so we are not abdicating, it is our part too. But I think this is an important thing for us to be able to do together.

The gentlewoman from Wisconsin is recognized for 5 minutes.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman. I guess I want to start out by asking, I believe it is Mr. Watkins, a question. You had with respect to the vulture funds, you say that the World Bank should buy back some of the debt and increase this fund and that countries ought to be able to come back more than once. What do you see as the under-riding obstacles or conditions that exist within the World Bank structure to prevent countries from doing that? I know that president certainly is very worried about vulture funds at this time. If this were so easy, why would not she just do it, what are the barriers?

Mr. WATKINS. As I understand it, it is simply World Bank policy that countries cannot access the fund prior to reaching decision point on the Debt Reduction Facility. So it should be a matter of being able to change that policy, and that would make it possible for countries like Liberia to move forward. I think another point that is interesting on the vulture fund piece, it is just a question of information and disclosure. One, progressive reform that we could, just building on what I suggested earlier, that we could—we do not know a lot about who these vulture funds are, even if they are U.S. citizens who are involved. So could we somehow find a way to disclose what are these funds paid, who are they, what actions are they taking? That sort of basic information on the if you in essence by debt on the secondary market and you are distressed debt fund or U.S. individual, should we not have access to that sort of information in addition to the World Bank level work?

Ms. MOORE OF WISCONSIN. Right, well, they will say that they are private funds and so that is why this disclosure is very difficult. It is a challenge that this committee deals with all the time.

Let me ask another question that is perhaps is a very theoretical and macroeconomic, and perhaps, Ms. Woods, you would like to weigh in on this as well with Mr. Watkins or other members of the panel, would it be useful to try to have the United Nations, I understand that most of these cases have been brought in the United Kingdom and the United States' courts, but would it be useful to have the G–8 countries or the United Nations define odious debt so that it would be a preemptive strike and discourage investors from in fact lending and having financial transactions with countries where there are dictators, where they are financing these wars? I think the story of Africa is a story of these criminals, I think that are in charge of government, and so if we were to define odious debt at the level of the United Nations, do you think that that would be something that we can pursue at the United Nations level that would discourage these investors and in fact prevent these folks from winning in court?

Ms. WOODS. Well, Aldo spends a lot of time on UN issues, so I am sure he will want to comment on this as well, but essentially yes, I think it is critical to begin to have international law that says that dictator debt essentially is illegitimate. And we have a practice from 1898 set forward by the United States when they es-

sentially took over Cuba and said that the debt owed to Spain was odious debt and took steps to have that debt canceled. You had the Bush Administration again with Iraq use that same principle of odious debt, and so you do have established practice. I think it would be extraordinary and extremely timely for this committee to encourage the administration at the United Nations and elsewhere to advance an international convention or some type of international legal binding mechanism that actually—

Ms. MOORE OF WISCONSIN. Vulture funds did not even come up at the last UN meeting, Mr. Chairman and Ms. Waters.

Mr. WATKINS. Right.

Ms. MOORE OF WISCONSIN. It did not even come up.

Mr. WATKINS. Right.

Ms. MOORE OF WISCONSIN. So that is why I asked that question.

Mr. WATKINS. Now, I do think there is an opportunity because the UN in 2008 is going to be advancing the Financing for Development Conference that was held in Monterrey, Mexico is re-convening, and so you will have an international conference looking at development finance issues, and clearly issues of debt are on that agenda, so there is an opportunity. What would be needed is leadership from the United States.

Ms. MOORE OF WISCONSIN. Well, Ms. Waters, for example, is on the Judiciary Committee, I do not know which jurisdiction, which committee has that, but she is also on this committee too, so I am so happy that she is here to hear this. Mr. Chairman, will you yield me just 30 more seconds?

The CHAIRMAN. Yes.

Ms. MOORE OF WISCONSIN. Thank you because I would like Mr. Caliari to be able to respond at the suggestion of Ms. Woods.

Mr. CALIARI. I really think she has covered it quite well. I totally agree with her opinion. You need a convention that is going to be binding on domestic courts because at some point the place where these debts is enforced is in court. So if there is a convention like that, that is multilaterally agreed, then as you say you can prevent these folks from winning in court, and I think that will be very important progress.

Ms. MOORE OF WISCONSIN. Thank you so much. I yield back.

Ms. WOODS. Thank you.

The CHAIRMAN. I want to thank you. And we really do want to keep working with you on how to—we are going to move on this, this committee will be voting on this bill next year, and designing a bankruptcy system will be part of the other safeguards we can put in. We will also be urging that we pay up our IDA debt because that reduces the push factor there. I appreciate this, and the members of our staff, myself, the gentlewoman from California, and others will remain in contact. The hearing is adjourned.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]

A P P E N D I X

November 8, 2007

House Committee on Financial Services
Opening Remarks
By Rep. Maxine Waters

Hearing on *H.R. 2634, Jubilee Act*

Thursday, November 8, 2007
2128 Rayburn, 10:00AM

I would like to begin by thanking Chairman Barney Frank and Ranking Member Spencer Bachus for organizing this hearing and for their support for the *Jubilee Act*. I also would like to thank the Jubilee Movement for all of their efforts over the past ten years to cancel the debts of the world's poorest countries.

The Jubilee Movement is one of the most outstanding humanitarian efforts I have seen in my career. Over the past ten years, Jubilee has convinced Members of Congress, officials of the Clinton and Bush Administrations, and political leaders from around the world to cancel poor country debts. I am so proud of my affiliation with the Jubilee Movement because it brought the needs of the world's poorest people to the attention of the world's most powerful leaders.

I introduced the *Jubilee Act* to cancel the debts of additional needy and deserving poor countries and to ensure that the benefits of debt cancellation will not be eroded. Because of the tireless efforts of Jubilee Movement activists, the *Jubilee Act* now has 86 cosponsors.

Existing debt cancellation programs have freed up resources to reduce poverty in some of the world's poorest countries. Cameroon is using its savings of $29.8 million from debt cancellation in 2006 for national poverty reduction priorities, including infrastructure, social sector and governance reforms. Uganda is using its savings of $57.9 million on improving energy infrastructure to ease acute electricity shortages, as well as primary education, malaria control, healthcare, and water infrastructure. Zambia is using its savings of $23.8 million to increase spending on agricultural projects and to eliminate fees for healthcare in rural areas. However, there are many needy and deserving poor countries that have yet to benefit from the cancellation of their debts.

The *Jubilee Act* will make up to 67 of the world's poorest countries eligible for complete debt cancellation by the United States, the World Bank, the International Monetary Fund (IMF), and other bilateral and multilateral creditors. In order to receive debt cancellation, the governments of these countries will be required to allocate the savings from debt cancellation towards spending on poverty-reduction programs. They will also have to engage interested parties within their societies, including a broad cross-section of civil society groups, in the spending allocation process; produce an annual report on this spending; and make it publicly available.

Countries would be excluded from receiving debt cancellation under the *Jubilee Act* if they have an excessive level of military expenditures; provide support for acts of international terrorism; fail to cooperate on international narcotics control matters; or engage in a consistent pattern of human rights violations. Countries also would be excluded if they lack transparent and effective budget execution and public financial management systems to ensure that the savings from debt cancellation would be spent on reducing poverty.

The *Jubilee Act* will establish a framework for responsible lending in order to preserve the benefits that debt cancellation has provided to poor countries and their people. The *Jubilee Act* requires the Secretary of the Treasury to take action to end the predatory practices of "vulture funds," private investment funds that buy up the debts of poor countries at reduced prices before these countries receive debt cancellation and then sue these countries to recover the original value of the debts plus interest. Finally, the *Jubilee Act* will require the Secretary of the Treasury to develop and promote policies to prevent bilateral, multilateral and private creditors from eroding the benefits of debt cancellation through irresponsible or exploitive lending.

I look forward to hearing the views of the witnesses on how the *Jubilee Act* can be effectively implemented and how it will benefit the world's poorest countries and their people.

I yield back the balance of my time.

Testimony of Aldo Caliari, Center of Concern
Before the Committee on Financial Services
U.S. House of Representatives on
"H.R. 2634, Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007"

November 8, 2007

Thank you, Mr. Chairman. It is an honor for me to have the opportunity to testify today before this Committee.

Jubilee USA has consistently promoted the cancellation of debt in impoverished countries out of the firm belief that debt cancellation can free resources currently spent in servicing debt, for productive and social spending that are desperately required in those countries. The unfinished agenda on debt, that the Jubilee Act addresses, involves an expansion of debt cancellation.

But we are also aware that if we want to make this, as well as the recent and ongoing round of debt cancellation, have lasting effects, we also need to look at the way ahead. We need to ensure that the conditions of excessive debt that created the problem in the first place are not soon recreated. That is why provisions in the bill to ensure responsible lending/ borrowing, are an inseparable part of the package that we believe constitutes this unfinished agenda on debt.

Debt cancellation will undoubtedly open new opportunities for the reduction of poverty in indebted countries. We have seen already that it does, we have examples of it. However, if after debt cancellation, debtor countries engage again in excessive borrowing, we would soon be back in a situation where social and productive spending is curtailed and hindered by large amounts of debt service. Jubilee is also concerned about ensuring that the affected population has a say in the process of public debt generation. In the past, too many debts were taken on via mechanisms that were non-transparent, non-accountable and, ultimately, of little benefit to the population in the indebted country. Wiping the debt slate clean offers the opportunity for a fresh start, and a change. And this change needs to happen.

The erosion of the debt relief gains

Today the gains a number of low-income countries expected to achieve through recent debt cancellation are starting to be eroded. There are two main concerns I want to raise in this regard.

The first concern is that the debt levels of countries benefiting from debt cancellation are rapidly rising again, because of new borrowing on non-concessional basis. This concern has been underscored by the Group of 8 and the international financial institutions (the World Bank and International Monetary Fund, hereinafter "the BWIs"). Creditors that may not have participated in debt cancellation may actually take advantage of the newly attractive debt profile of countries receiving debt cancellation for providing financing on a non-concessional basis. The situation in which *"non-concessional lenders indirectly obtain financial gain from International Development Association ("IDA")'s debt forgiveness, grants and concessional financing activities without paying*

for it"(IMF/World Bank 2006) is what in the jargon of the International Development Association has been called "free-riding."[1]

Rising levels of debt are not a phenomenon unique to countries receiving debt cancellation under the Multilateral Debt Reduction Initiative ("MDRI") in 2005. While this risk would tend to be smaller for countries that have lower access to capital markets, not all highly-indebted countries are excluded from access, especially if they are resource-rich countries that can collateralize debt with future export receipts. For example, in 2004 about 27 percent of the debt of 39 IDA-only countries classified as presenting a high or moderate risk of debt distress was non-concessional and only five of these countries[2] accounted for 78 percent of the stock of non-concessional debt.

But free-riding risks are especially significant for MDRI beneficiaries and countries receiving debt cancellation because their lower debt ratios put them back in a position where they represent an attractive debt profile. Post-MDRI, debt stock ratios in most recipient countries will be significantly lower than for many middle-income countries that primarily borrow on non-concessional terms, as reported by the World Bank. (IDA 2006: para. 15). In this situation, creditors that may not have participated in the debt relief effort may seek to profit by lending on a non-concessional basis.

Non-concessional financing for countries at risk has come from different sources, public and private. These sources include:

1) Emerging bilateral creditors (that is, non-Paris Club bilateral creditors) have increased their lending to LICs steadily. The six largest emerging creditors, by amounts, are China, Brazil, India, Korea, Kuwait and Saudi Arabia. According to US Treasury, this category of lenders represents the largest free-riding danger, as export promotion activities of these countries are expected to increase dramatically over the next several years. (US Treasury 2006:11)

2) Officially-supported OECD export credits: Provided by OECD governments through their export credit agencies.

3) Commercial credits and bonds: several Heavily Indebted Poor Countries ("HIPCs") have large commercial credits, such as Liberia, Sudan, Congo, and Cote D'Ivoire. It is also expected that many Low Income Countries (LICs) will, post-MDRI, be able to issue debt in private financial markets, a possibility that several of them are considering and that was, in general terms, closed to them because of their prevailing high levels of indebtedness. This is the case, for example, of Ghana, Kenya, Zambia. (Financial Times 2006) The IMF reports foreign investors' interest in debt of Cameroon, Malawi, Tanzania and Uganda. (IMF /World Bank 2006a:footnote 4)

4) Domestic loans: Many LICs are also resorting to issuing bonds in a domestic capital market, debt that is still not consistently addressed in debt sustainability analyses.

A second source of concern regarding the erosion of gains from debt relief is the activity of litigating creditors. One example of these that has recently come to the public attention, even though the problem has been around for some time, are so-called "vulture funds"-- creditors those who

[1] The definition conforms also to the one used by US Treasury in a recent paper , see US Department of the Treasury, 2006 ("Free-riders . . . indirectly obtain financial gain from international debt forgiveness and grant assistance – through improved country repayment prospects—without paying for it.")
[2] Sudan, Angola, Republic o Congo, DRC, Cote d'Ivoire.

profit by buying cheap sovereign debt in secondary markets and then maximize recovery via litigation and other pressure mechanisms.

The action of these entities has recently been on the news due to the case of Zambia and Donegal, a "vulture fund." Donegal bought Zambian debt with a face value of $15 million for $ 3.28 million—Zambia had just reached agreement with Romania, the original creditor, for a settlement in that amount-- , and then sued Zambia before a British court for around $55 million. The British court, in the end, awarded Donegal $ 15 million, nearly five times what it bought the debt for.

However, "vulture funds" are not the only litigating creditors. Lawsuits have reportedly been the typical response from a substantial minority –or some times majority—of creditors to publicly-funded debt relief operations. In fact, litigating creditors also include commercial banks and other suppliers that refuse to participate in IDA commercial debt-buy back operations, as well as non-OECD governments also refusing to participate in debt relief operations such as the HIPC Initiative.

According to the latest World Bank survey, 24 HIPC countries have been targeted with lawsuits by a number of 46 litigating creditors. Eight of these have taken place within the last year. This is evidence of a growing tendency. In particular, the proliferation of vulture funds lawsuits against HIPC-beneficiary countries such as Congo, Zambia and Cameroon in the period 2004-2006, can be taken as a sign that it is with the latest round of debt cancellation that the business has become more profitable and attractive to these entities.

Some other relevant facts about litigating creditors are:

- Out of 46 plaintiffs, twenty six judgments have been awarded in favor of plaintiffs, amounting to US$ 2 billion (for claims originally valued in US$ 427 million). (IDA 2007:8)
- The total amount of debt covered by lawsuits is US$ 1.99 billion. This represents a rather small portion of HIPC debt, but over a 10 percent of the debt those countries would have after the latest round of debt cancellation goes through. According to estimates of the BWIs, total litigated debts are around 13-15 % of GDP in some cases.
- What matters is not only the amount of debt covered, as usually awards that find in favor of the plaintiff condemn the HIPC country to pay the original amounts plus interest and fees accrued on the debt while it has been in arrears and legal costs of the plaintiff.
- Awarded judgments may mean greater difficulties in terms of liquidity. For instance, Uganda and Sierra Leone faced lawsuit payments to creditors as high as 35 % of debt service in one year.

The prominence of the issue in the international agenda was in evidence at different G8 Finance Ministers meetings this year. At the last meeting, in Washington DC, Ministers expressed: "We remain concerned about the problem of aggressive litigation against HIPC countries. We welcome the steps already taken by the Paris Club to address this problem, urge all sovereign creditors not to on-sell claims on HIPCs, and are examining additional steps that might be taken." (G7 Finance Ministers 2007). Britain's Chancellor Gordon Brown has been among the leaders that pledged to take action to curb the behavior of "vulture funds."

The Debt Sustainability Framework: a response to the rise of unsustainable debt ?

The problem posed by the possibility of high levels of new non-concessional borrowing that could undermine debt reduction is not a recent phenomenon. In fact, it was to address this problem that the World Bank and the IMF developed the Debt Sustainability Framework

Finally adopted by the World Bank and IMF in 2005, this framework had as a purpose to guide borrowing decisions of low-income countries in a way that matched their needs for funds with their prospective ability to service debt. (For a description of the Debt Sustainability Framework please see Annex 1.) As put by the World Bank, "with many 'graduated' HIPCs experiencing rising debt burdens again, and debt ratios in some other low-income countries also reaching elevated levels, there is a clear need for guidance on how much debt these countries can afford to accumulate." (IMF/World Bank 2004: para 8)

The emergence of the problem of free-riding described above attests to the flaws of the Debt Sustainability Framework (DSF) to achieve its otherwise laudable purpose. Still, the first response international financial institutions sought to give to the potential erosion of debt relief gains in recipient countries has come in the form of some additions to the DSF. On the one hand, they placed emphasis on fostering "creditor coordination" around the DSF, with the expectation that such coordination will grow out of mere outreach and communication efforts towards creditors not providing debt relief. (IDA 2006: IV.A) On the other hand, they placed measures that are expected to stop debtors from borrowing beyond sustainable levels. These measures come in the form of reduced nominal allocations to the affected borrowers and harder terms of assistance. (IDA 2006: para. 47) In the case of Fund-supported countries they are subject to conditionalities related to the level of borrowing. (IMF 2006: paras. 25/26; IDA 2006, para. 55).

There are a number of problems with this response. First, it should be acknowledged that some countries are going for non-concessional financing because of the absence of enough concessional funds to finance infrastructure and social spending required for development needs. The failure of donors to meet their aid commitments, which translated into less availability of concessional finance to meet development targets by borrowers, is, at least, one part of the reason why borrowers are getting re-indebted. It was clear that for the DSF approach to work a significant amount of grant funding would be required. While the DSF set thresholds for indebtedness, it did nothing to guarantee that grants would become available in the amount required by recipient countries.

The risks that in an environment of declining grants countries seeing their debt reduced might need to borrow again was clearly seen in advance by the creditors. In papers discussing the framework, the BWIs asserted

"Ultimately, the extent to which countries will face dilemmas between financing needs and long-term debt sustainability depends to a large extent on the international community's willingness to provide additional grants. Unless donors and creditors can significantly increase their pool of resources, a higher share of grant funding to some countries would have to come at the expense of reduced nominal transfers available to all. This would result in fierce competition for these resources" (IMF/World Bank 2004: 35).[3]

[3] See also Ib.:32 ("The tailoring of new lending decisions to the risk of debt distress would almost certainly require an increase in the concessionality of financing to low-income countries and, consequently, a higher volume of grants, to avoid reductions in net transfers.")

It is well known that grant disbursements by OECD countries not only have not kept pace with the pledges at the Monterrey Conference in 2002, and Gleneagles in 2005, but have actually fallen by 1.8 percent in 2006, even excluding from the calculation, the admittedly inflating effects that one-off debt relief to Iraq and Nigeria had on the figures of the previous year.

Second, the problem with the scarcity of grants is compounded by the fact that the DSF itself may tend to overestimate the amount of debt countries can safely undertake. There are reasons to think that debt ceilings are still set too high, so the need for grants may be, if anything, underestimated. As I explain in going through the DSF (See Annex I) the third step of the DSF is meant to bring an element of conservatism into the debt sustainability assessment. An assessment of projected debt burdens in the face of plausible shocks is part of the measurement of debt sustainability under the DSF. At first sight, this provision seems to address one of the criticisms of the HIPC initiative, namely, its overoptimistic projections and lack of attention to external shocks. A closer analysis, though, reveals this is far from being the case.

The charge against HIPC in the past was that the very optimistic projections embedded in the DSAs underestimated the magnitude of the problems in debtor countries and, hence, debt relief needs. In the judgment of US Treasury staff, "it is unclear whether [the World Bank and IMF] have adequately addressed the problem of overoptimistic projections, which has been a leading cause of unsustainable MDB lending in the past." (US Treasury 2006:9). It goes on to quote the World Bank's independent evaluation estimates that the export projections used to determine the amount of debt relief provided under the HIPC Initiative have been significantly higher than actual historical export performance –twice the levels from 1990-2000 and almost six times those from 1980-2000." (Ib.) The concerns raised by analysts of the HIPC Initiative about the models used for integrating assumptions about export and GDP growth into debt burden projections[4] are not dispelled by a framework that continues to leave the exercise in the hands of the same actors and does not require any further disclosure from them. One problem underlined by a World Bank evaluation of 2003 is that "it is unclear how the initiative itself is incorporated into projections of imports and net resource transfers, or how the debt projections are integrated with the macroeconomic framework. It would be useful for the World Bank and IMF to provide an explicit

[4] The BWI assumptions about export growth and the consequent growth of GDP have been the subject of widespread criticism by many sources, generally for being too optimistic. (GAO 2000 and 2004; World Bank, 2003:28 and Annexes G and H) As early as 2000, the US General Accounting Office was pointing out that, even if export growth projections seemed to be consistent with the recent past, since the recipient countries were dependent on primary commodities these projections were subject to the vagaries of prices typical to those commodities. (GAO, 2000: 52)
The critique was eventually taken up by the staff of the BWIs itself. According to a HIPC Status of Implementation report dated September 2002, "Staffs' review of the export projections embodied in decision point documents suggests that earlier projections turned out to be optimistic in two-thirds of the countries reviewed . . .. It also confirms that projected future growth for decision point HIPCs was significantly higher than may be expected on the basis of past export performance alone." (IMF/World Bank, 2002: 28)
A more recent review by the US General Accounting Office of the 27 HIPCs that passed Decision Point found that projected export growth rates continued to be overly optimistic. GAO (2004, 15). While according to the IMF/World Bank the 27 HIPCs would become debt sustainable if they had an average export growth of 7.7 percent, "export earnings are more likely to grow", says the GAO, "at the historical annual average of 3.1 percent."
In addition to the accuracy of the assumptions, concerns raised by the Operations Evaluation Department of the World Bank relate to the models by which debt projections are conceived, the consistency with which they are applied and their sensitivity to selected assumptions. The Operations Evaluation Department claims in its report it was prevented from making a judgment on these matters because the methodological basis for these projections was not made available. Its concerns, it revealed, were strengthened by consultations with World Bank and IMF staff and analysis in the HIPC documents. (World Bank 2003:22).

statement of how the debt projections, including their balance of payments and fiscal components, are arrived at." The increased discretion DSF awarded to staff does not help.

In fact, last year I conducted a sample review of forty three DSAs, and found nine countries that, in their stress testing, had a breach of the respective threshold indicators and were, nonetheless, considered to be at a low risk of debt distress.[5] In addition, there were six cases in which the countries breaching thresholds were found to be at moderate risk. Given the continuation of an obscure and highly discretionary approach to reach conclusions from the performance of stress and vulnerability tests, it is very difficult to know what amounts for the difference in treatment between these countries and those where breaches of thresholds led to a determination of "high" risk. What I, perhaps more troublingly, found in this review, was that in fifteen cases[6], the policy-dependent threshold categorization that is supposed to act as point of departure for application of stress testing is not at all listed, making it impossible to know with any certainty where the final assessment comes from.[7]

Some positive results could have been expected from an approach that sought to safeguard against overoptimistic manipulation of models and data. But the lack of transparency and accountability in the implementation of these safeguards neutralizes these potentially positive aspects of the DSF.

Third, the approach is ineffective to deter unsustainable lending. Creditors, knowing that they are certain not to face any consequence for lending to borrowers above sustainable levels, have certainly no incentive to respect debt ceilings in countries whose reduced debt levels turn them into attractive profit-making opportunities. Given the lack of success of the HIPC initiative, which provided less debt reduction than the MDRI, to bring on board non-Paris Club creditors, public and private, there is no basis for the expectations that these same creditors will voluntarily give a positive response to the efforts around the DSF. If anything, given the greater amounts of debt forgiveness at stake, the incentives are exactly the opposite: more profit could be made by non-participating creditors that decide to "free-ride." IDA seems to be deeply aware of the futility of the attempt,

"Part of the complexity of the free-rider issue stems from the fact that there is no institutional framework either for a formal creditor coordination process or for the prevention of serious breaches of concessionality benchmarks by opportunistic commercial lenders. . . . A mechanism to ensure creditor coordination could lead to a superior outcome for all involved creditors. . . . The DSF . . . could not be expected to solve the free-riding problem associated with the provision of grants by IDA and other official creditors." (IDA 2006: paras. 34/35)

As a result, though responsibility for breaches to the debt ceilings is, at least, a shared one with the lending creditor, the effort would certainly leave off the hook non-participating creditors.

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[5] The countries are Zambia, Vietnam, Sri Lanka, Papua New Guinea, Mozambique, Mali, Cape Verde, Armenia and Albania.

[6] Bangladesh, Bolivia, Bosnia, Cameroon, Comoros, Democratic Republic of Congo, Dominica, Grenada, Liberia, Pakistan, Republic of Congo, Rwanda, Sao Tome and Principe, Serbia and Zimbabwe.

[7] In six of these cases, the vulnerability assessment is also missing altogether (Bangladesh, Bolivia, Bosnia, Cameroon, DRC, Dominica).

Fourth, the approach, besides proving highly ineffective to stop unsustainable lending, might actually worsen the problem. The punishment inflicted on the debtor country is a reduction of access to IDA's concessional lending. Therefore, it is likely that the borrower in question, which evidently could not cover its needs of external financing resorting to concessional sources, will be forced to actually ramp up its appeal to non-concessional sources of financing. Again, this does also seem to be clear even in IDA's judgment, as expressed in the following warning:

"The key risk [involved with a volumes-based response to free-riding] is that affected countries may attempt to compensate for their reduced IDA allocations by seeking further non-concessional financing from other creditors." (IDA 2006: para. 55)

Finally, another of my colleagues at these hearings is dealing more in depth with conditionality, but it is fair to at least pinpoint here that the generation of a debt overhang had to do with lending that was not effective at promoting growth. Again, on the reasons for excessive multilateral lending, it is pertinent to quote the US Treasury paper:

"The incentive structure in the delivery of MDB assistance favored gross volumes. There were bureaucratic incentives to increase volumes, political incentives to approve large, visible transactions, and institutional incentives to ignore debt sustainability consequences since – until recently – MDB debt was not subject to reduction. . . . the IFIs filled financing gaps created by sudden declines in non-concessional, often speculative lending from commercial and official creditors, based their lending decisions on temporary commodity price increases and short-term growth prospects." (US Treasury 2006:4) The role that failed infrastructure projects and a dogmatic approach to macroeconomic policy conditionality have played in the lack of growth-creating lending is another reason why debt has gone up. But the need for a structural/ macroeconomic policy framework that ensures lending is applied to productive activities does not seem to be a concern of the DSF, which leaves untouched (and reinforces) the same macroeconomic/ structural orthodox conventions of the past.

Jubilee Act provisions addressing responsible lending

I believe that the measures contained in the Jubilee bill currently under your consideration will significantly improve over the current situation, and lead us to preventing the re-emergence of unsustainable and irresponsible debt levels in impoverished countries.

First, let me state the bill's provisions for a strengthened framework on transparency (Sec. 1626, b), represent a key contribution towards this goal, by ensuring a greater influence by affected communities on the undertaking of new loans.

But I want to focus on the provisions on Sec. 1626 (c), on a Framework for Responsible Lending, which we believe are at the center of the response. The proposed legislation contains a generic call on the Executive to "develop and promote policies to ensure all creditors, with no distinction, will contribute to preserving the gains of debt relief for low-income debtor countries." It can be appreciated that this is a very open language, and different measures may be envisioned to fulfill it.

But then the proposed legislation goes on to suggest some more concrete measures.

It calls for providing that "external financing needs of low income countries are met primarily through grant financing rather than new lending." As I have stated, a "pull" factor leading recipient

countries to undertake new borrowing is the scarcity of grant financing. Increased grant finance has been promoted by the US Treasury, in IDA and bilaterally. Still, the level of grant financing envisioned in IDA did not rest on the notion of how much financing countries need, but on how much was the available financing the donors were willing to provide. We believe more could be done.

The bill also seeks the international adoption of a binding legal framework that

(A) guarantees that no creditor can take or expect to take financial advantage of acquired or newly awarded debt relief through the terms and rates of their new lending to beneficiary countries;
(B) is binding on all creditors, whether multilateral, bilateral or private;
(C) foresees, as a sanction for creditors who violate it, an equitable share in the burden of the losses from any future debt relief needed by the sovereign debtor to whom lending was irresponsibly provided;
(D) provides for decisions on irresponsible lending to be made by an entity independent from the creditors; and
(E) enables fair opportunities for the people of the affected country to be heard; "

We acknowledge this is not easy, and that it will take time. But we also believe, for the reasons expressed in my assessment of the existing response, that if we want to achieve a long-term solution to the debt problem, there is no way around this measure. Only a binding framework that applies to all creditors, public and private, can change the incentives intrinsic to the system today.

The existing measures that rely on punishing the debtor are, apparently, easier to implement, and maybe considered the low-hanging fruit. But they are also quite ineffective, not to mention unfair. The measure the bill proposes will set the incentives right for new lending and borrowing. The measure seeks to complement the measures that rely on borrowers' compliance with a sanction to the creditor that engages in irresponsible lending. Please note that the sanction comes simply in the form of an equitable share in the burden of losses from a debt write-off, should a debt write-off become necessary in the future. But the hope is that no new debt write-offs will be necessary because this is, first and above everything, a preventive measure. If creditors know that they are susceptible to taking a haircut in case lending proves to be irresponsible or unsustainable, they will have every incentive to respect non-concessional borrowing ceilings, unlike the system today where they have every incentive not to.

Obviously, one very easy objection to this call is that such a mechanism will not work unless every public creditor subscribes to it (one can presume private creditors are under the regulatory jurisdiction of some public authority, so their consent will not be necessary). This should not be an obstacle to start the process of seeking the adoption of such a framework. What is at stake here is a problem of collective action. Collective action solutions always start with a leader, or a champion.

With regards to the set of issues raised by vulture funds, the proposed legislation also contains specific additional measures by calling on the US Treasury to

"(2) collaborate with appropriate government agencies to prevent private investors from profiting from buying low-income country debts at market value and attempting to recover their original value or more (commonly known as `vulture funds'), including by—
(A) designing legal remedies to curtail or realign the incentives for this activity"
(B) identifying avenues to provide legal support to countries being sued by `vulture funds'; and

(C) providing technical assistance to advise possible targeted governments on measures to take to prevent `vulture funds' from successfully taking them to court;"

Let me say something about each of these measures:

A) Designing legal remedies to curtail or realign the incentives for this activity

Legislative action could certainly help realign the incentives for vulture funds to profit from the regained financial strength of debtor countries. Of course, success in the adoption of a legally binding framework on responsible lending would ensure any lawsuit by a creditor that has not taken an equitable share in the burden of the debt write-off, would have its lawsuit dismissed in courts, and this includes vulture funds.

But I refer you to other efforts that may yield fruit in the shorter term, as worth consideration. For example, the proposal by the Livingston Group that would make "sovereign debt profiteering" – the main activity in which "vulture funds" engage—illegal. Also, given that two thirds of litigation has taken place in US and UK courts, chances are that national pronouncements via legislation in these two countries can change significantly court outcomes.

(B) Identifying avenues to provide legal support to countries being sued by `vulture funds';

The Commercial Debt Reduction Facility, administered by IDA, provides grant funding to enable HIPC governments to buy back outstanding commercial debt. Established in 1989, good part of the success in debt relief recipients to bail in the private sector creditors has been due to the catalytic factor of this facility in helping buybacks of debt. In total, DRF has supported 22 completed buy-back operations in 21 countries, extinguishing a total of about US$ 8 billion, utilizing about US$ 637 million. In the absence of, or until longer-term solutions, can be implemented, the DRF has shown its potential for efficient use of resources in deflecting the action of litigating creditors. It should be strengthened and its terms should be more flexible to allow assistance to low-income countries that, rather than a buyback, need to pay for the legal support required to face litigation (today a certain amount can be applied to legal and advisory fees to prepare the debt buy-back operation, but not specifically fend-off threats of litigation).

(C) Providing technical assistance to advise possible targeted governments on measures to take to prevent `vulture funds' from successfully taking them to court;

Finally, a lot more could be done by recipient countries themselves if they had the chance to count on proper advice and systematically follow it in dealing with private creditors, especially before the threat of litigation arises. The success in taking these measures usually boils down to knowledge and human resources, and technical assistance could help governments surmount those obstacles.

Conclusion

The Jubilee Act calls for completing the unfinished agenda on debt. In doing so, Jubilee is asking Congress to expand debt cancellation, but also to implement measures to ensure that, towards the future, new lending and borrowing will be carried out on a responsible basis.

Annex 1 - Debt relief frameworks: a brief synopsis

The Enhanced HIPC Initiative had as a goal turning the debt levels of 42 countries, representing 8% of total debt of developing countries, to a sustainable level.[8] Seen against this backdrop, the HIPC goals seem rather modest. Nonetheless, the HIPC Initiative represented the first attempt to deal with all debt (bilateral, multilateral and private) in a comprehensive manner, and it is the first one to include reduction of debt owed to multilaterals. HIPC consists of two stages. At first, the potentially eligible country builds a track record of implementing World Bank–IMF programs for three years. At that point, called the Decision Point, the BWIs determine whether, after all traditional debt reduction mechanisms have been tried, the country's debt would still be above a numerically pre-determined threshold. If this is the case, a package of debt relief is designed. In order to obtain full debt relief the country needs to continue a series of reforms for three or more years. When this is achieved, the country reaches what is called Completion Point and the promised debt stock is written off. Between Decision and Completion Point, however, debt service relief already happens on an interim basis. In total, when completed, the Initiative would provide up to two-thirds debt reduction to the eligible countries.

The Debt Sustainability Framework (DSF) was adopted by the IMF/World Bank as the new framework for managing the debt of Low Income Countries (LICs) early in 2005. The DSF applies only to LICs in account of the argument that Middle Income Countries' general capacity to access to capital markets militates in favor of different rules than those applicable to countries that are mostly dependent on official creditors. Among LICs, the DSF applies to those that have either never entered, or already graduated, from the HIPC Initiative. Countries in between would have both types of assessments carried out.

An important characteristic of the DSF is that, unlike the HIPC Initiative, it is not used as a basis to calculate debt relief. The policy consequence of lower debt thresholds under the HIPC Initiative was to flag the need for greater debt relief. Instead, the policy consequence of a lower debt threshold under the DSF is decreased access to lending in non-concessional terms and the need to finance remaining development and poverty reduction goals via grants, with the option of debt relief (or further debt relief, depending on the case) being ruled out.

Also unlike HIPC, the DSF does not rely on pre-set numerical indicators but rather on country-specific debt thresholds.

The establishment of thresholds is arrived at through a method based on three pillars. The definition of debt thresholds is dependent on the quality of policy of the indebted country, assessment of actual and projected debt burden indicators based both on baseline and stress test scenarios, and a comparison of the country's debt burden against these indicators, leading to an overall assessment of the country's risk of 'debt distress'. It is on this final conclusion that subsequent financing decisions are meant to be based.

[8] The figure is taken from World Bank, 2003, 5 and the goal from id.,11. More recent documents from the Bretton Woods Institutions have become increasingly cautious in describing the goal of the initiative. See e.g. IMF/IDA 2003, 5, "[The Enhanced HIPC Initiative] charted a course toward restoring debt sustainability by providing resources for substantial debt relief. However, the Initiative, ... can only support but not guarantee sustainability going forward."

Country-specific debt thresholds are generated on the basis of the quality of their policy and institutional environments, measured using the Country Policy and Institutional Assessment (CPIA) methodology. The CPIA system compares a country's institutional and policy framework against a set of pre-established criteria, receiving a score based on a standard, pre-set view of what is considered a good performance. Depending on their CPIA ratings, countries are placed into three groups (poor, medium and strong), and for each of the five fiscal measures used, assigned a threshold debt level range.

The second step in the DSF process is 'assessing and interpreting a country's current and prospective debt-burden indicators under [a] baseline [scenario] and in the event of plausible shocks.'[9] The baseline scenario centers on macroeconomic and fiscal forecasts about the conditions likely to confront the country over the next twenty years, according to the IMF, while the exogenous shock scenarios or stress tests are circumstances such as diminished GDP or export growth, or a depreciation in the value of the national currency, that the country subject to analysis may face.

Finally, these indicators are compared to the thresholds previously established, and on the basis of whether they are under or over the established limits, a rating of low, medium or high risk of debt distress is made. Taken literally, this framework would leave little room for discretion, but in fact a more nuanced approach is encouraged in reaching the ultimate conclusion, meaning, for example, that countries breaching one or more of the thresholds can theoretically be determined to still only be at low risk of debt distress.

Such a rating is then meant to inform the longer-term financing strategies of the IFIs and other lenders and donors as regards the level of the grant element in new financial flows to such countries. Those at a lower risk of debt distress and better prepared to handle the fall-out from external shocks are assumed to be able to take on higher levels of (concessional) financing, while for countries with high levels of debt distress, an increase in the amount of funding received as grants is deemed preferable. Concretely, a "traffic light" system has been established. Countries at a low risk of debt distress receive a "green light" (so are able to finance their requirements through loans). Those at a medium risk of debt distress receive a "yellow light" (can be financed through a 50-50 mix of grants and loans). Those at a high risk of debt distress can only be financed through grants ("red light"). Debt, in this framework, is supposed to be brought under the country's allowed threshold through the persistence, over time, of a particular level of grants and loans to fulfill financing requirements.

[9] IMF/IDA 2004, 24

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The Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007 (H.R. 2634)
Testimony for the House Financial Services Committee November 8, 2007

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Mr. Chairman, Members of the Subcommittee,

I would like to thank the Financial Services Committee for the opportunity to testify here today. Debt relief for poor countries has been a high priority for the United States Catholic Bishops Conference (USCCB) for many years.

In my testimony I will be focusing on a number of issues at a level of technical detail which the bishops would not normally address, and on which they therefore would not have a position. Thus I offer my testimony primarily as a former development agency official who has worked on debt and related issues with both the World Bank and the United States Catholic Bishops' Conference (USCCB) over quite a few years.

Role of USCCB

But first let me briefly mention the active role which the United States Catholic Bishops Conference has played in poor country debt relief. The bishops have issued two major statements on the issue, the first as far back as 1989 and an updated version in 1999. In the mid-90's the USCCB intensified its work on debt, inspired particularly by the words of the late, revered Pope John Paul II in his message on the coming Millennium. He recalled the biblical tradition of the Jubilee Year. It was a time to restore social justice and equity between peoples, to give a fresh start to the poor. He called on all Christians, in the spirit of the Book of Leviticus, "to raise their voice on behalf of all the poor of the world, proposing the jubilee as an appropriate time to give thought, among other things, to reducing substantially, if not canceling outright, the international debt which seriously threatens the future of many nations."

The USCCB and its relief and development agency, Catholic Relief Services, played an active role, along with many other US faith-based organizations, in the worldwide Jubilee 2000 campaign. Reps. Frank, Bachus, Waters, and former Rep. Jim Leach, among others provided strong bipartisan leadership in urging the U.S. administration to respond to the call of many poor countries around the world for relief from the heavy burden of international debt.

The Enhanced HIPC Initiative

The Jubilee 2000 campaign led, in the latter part of 1999, to the adoption by the major creditor nations and international financial institutions of a new debt relief program called the Enhanced Heavily-Indebted Poor Countries (HIPC) Initiative. It represented a major advance over the original HIPC program, promising much more debt relief, more rapidly, to many more countries.

original HIPC program, promising much more debt relief, more rapidly, to many more countries. Also, the Enhanced HIPC program incorporated a new framework for the provision of debt relief and other external assistance to HIPC countries. This new approach, called the Poverty Reduction Strategy process (PRSP), contained elements that Catholic Relief Services, the bishops conference and many other non-governmental organizations had long advocated. The PRSP was intended to strengthen the poverty focus of development programs and to promote country ownership, transparency and civil society participation in their design and implementation. A major objective of these provisions, from our perspective, was to ensure participation of groups who could give voice to the needs of the poor, and who could help assure that the benefits of debt relief would reach the poor.

Once the program was adopted, it had to be funded, and once again it was members of this Committee who stepped to the fore. I will never forget the House floor debate on the Foreign Operations appropriations bill on a late summer night in the year 2000. Reps. Waters, Frank, Leach and Bachus all rose to speak movingly and forcefully about the importance of full funding for the Enhanced HIPC Program, and they were joined by quite a few others. And it was encouraging to hear speakers on both sides of the aisle talk about the responsibility of the United States to help the less fortunate around the world.

One of the most powerful statements was made by Rep. Bachus, who has spoken out frequently and eloquently about the moral imperative of debt relief. He put the issue into perspective: "[I]t is not a total solution to poverty, to hunger, to disease; but it is the first step. It is a necessary step. It is where the journey should begin to free these countries of the burden of debt, the chains of poverty, the shackles of despair, to enable them to minister to the economic and social needs of their people, their children." When the debate ended, the House voted to approve an amendment offered by Rep. Waters which tripled the appropriation for debt relief.

<u>HIPC Debt Relief Was Uneven and Not Deep Enough to Give a "Fresh Start" to Poor Countries</u>

As implementation of the enhanced HIPC program progressed, some of us noted that while substantial debt reduction was being committed to about two-dozen very poor countries, the amount of relief was uneven across these countries. Under the HIPC formula, the amount of the relief is determined, in most cases, by what is needed to bring the ratio of debt to exports down to a certain level. To us, what was most important, however, was the relation between debt service and government revenues. We wanted to know how much government revenue would be freed up for expenditures in education, health, clean water, rural roads and other investments that would create opportunities for the millions living on less than $2 a day to break out of the cycle of poverty and begin to achieve their human potential.

Unfortunately, what we found was a wide variance in the amount of debt service reduction being granted. For one or two countries, the debt service obligation was being brought down to around 5 percent of government revenues. For most of the remaining countries, however, this ratio was substantially higher and in several cases remained above 20%. This was disappointing news as what was important was to provide debt relief deep enough to give a "fresh start" to the poor. Moreover, the results seemed inconsistent with the Communiqué issued by the G-8 leaders at the 1999 Summit in Cologne, Germany. In announcing the new program, they succinctly stated:

"The central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs."

Subsequently, with Reps. Smith, Payne and former Rep. LaFalce taking the lead role in the House, the Congress incorporated into the Global Health Act of 2002 major new provisions that authorized and encouraged the Administration to work to strengthen the HIPC program by tying the amount of the debt relief to the ratio between debt service to revenues and bringing that ratio down to a low level. Unfortunately, the Administration did not implement these provisions.

The MDRI

By 2004, there was a growing consensus among the U.S., the United Kingdom and other major creditor nations that the HIPC program was not providing debt relief deep enough to assure that HIPC countries would not soon return to a situation of "unsustainable external debt." The U.S. Treasury referred to a never-ending "lend and forgive" cycle whereby institutions such as IDA would make loans to poor countries and then have to make new loans so that the country would have enough funds to repay the previous loans . These concerns led to the adoption by the international community in 2005 of a new Multilateral Debt Relief Initiative (MDRI),

The essence of the MDRI is to provide qualifying HIPC countries with full cancellation of debts owed to the World Bank's International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (AFDF) The cancellation occurs once a country has reached its "completion point" under the HIPC program, that is, that it has fulfilled conditions related to economic management and progress under the country's poverty reduction strategy. So far 22 countries have received MDRI debt cancellation, with another 18 countries potentially able to benefit from it.

A notable omission from the MDRI agreement was the substantial debt owed by five Latin American and Caribbean HIPC countries to the Inter-American Development Bank (IDB).This omission was rectified earlier this year when the IDB agreed to give MDRI treatment to its HIPC borrowers. Since all of these countries had reached their HIPC completion points, they received immediate debt cancellation. Together with earlier agreements to cancel most bilateral debts, including 100% of debts owed to the United States, these new agreements are providing the kind of deep debt relief the Catholic Church has advocated for poor countries .

I believe other witnesses are going to discuss how much debt relief has been granted so far under the various debt relief programs and will also discuss how debt relief has contributed to poverty reduction in the HIPC countries. Therefore, I will not dwell on these matters, except to mention one specific case which I believe demonstrates in concrete fashion the very positive impact that debt relief can have, and is having, in poor countries.

A HIPC Success Story

Catholic Relief Services has been active for many years in Cameroon. Working closely with the local Catholic Church, it has financed health, education, and community development projects in various parts of the country. In recent years it had not partnered with the government in any of

its projects. Then came the HIPC program. When Cameroon qualified for HIPC debt relief a few years ago, a HIPC funding committee was set up consisting of government, civil society, church and donor representatives, with observers from the World Bank, IMF and ADB. The committee's job is to assure that the funds generated by HIPC debt relief are used to carry out the country's poverty reduction strategy (PRSP). It approves the allocation of HIPC funds to specific projects and monitors their implementation.

CRS and other development agencies operating in Cameroon have long viewed community forestry as an important grassroots participatory strategy for fighting poverty. Uncontrolled exploitation of forestry resources has been a long-standing problem in Cameroon. A 1994 law allows villages in and around large forest concessions to obtain authorization from the government for the sustainable management of forest resources for community benefit. Yet by 2003, very few community forestry projects had been approved by the government. It was at this time that CRS developed and presented to the HIPC Committee a forestry project that would operate within a Catholic diocese that abounds in forestry resources. The project would mobilize 25 rural communities to manage their forests in a profitable and environmentally sustainable manner. Moreover, a portion of tax revenues owed by timber companies would be collected by the communities and reinvested in community development projects.

The HIPC Committee was convinced of the technical merits of the CRS project and, in spite of political opposition from some quarters, approved it and arranged for project funds to be released directly from the Ministry of Finance to the project managers. This was an important breakthrough in the country, and CRS and a broad group of allies are now well-placed to lead the effort to expand community forestry projects throughout Cameroon.

<u>H.R. 2634's Debt Cancellation Would Fill an Important Gap in the HIPC and MDRI Programs</u>

I would like now to turn to the rationale for the debt cancellation called for by H.R.2634. It is clear that the debt reduction that has been granted to poor countries through successive debt relief initiatives represents a major accomplishment within the overall effort to reduce global poverty. However, we believe there is more to be done. There are a substantial number of poor countries that have not benefited from the HIPC program, let alone the MDRI. The disparity of treatment between HIPC poor countries and non-HIPC poor countries became clear when the World Bank and IMF conducted an examination of "debt sustainability" in countries that, because of very low per capita incomes or other special circumstances, are eligible to receive only IDA funds from the World Bank. These are the so-called IDA only countries. The primary objective of the exercise was to determine which countries should receive their future IDA financing either wholly or partially in the form of grants.

When this exercise was conducted in 2005, it showed that 42 countries were at sufficiently high risk of debt distress to be eligible for grant financing. The list included 29 HIPC countries plus 18 other countries. This meant that there were 18 non-HIPC countries rated as having a risk of debt distress equal to, or greater than, the HIPC countries. Like the HIPC's, they would get grants going forward, but unlike the HIPC's they would get no debt relief. Because of the ten-year grace period on the repayment of IDA credits, the non-HIPCs would begin receiving the financial benefit of grants (rather than loans) only after ten years. In the meantime they would

carry the full burden of existing debts and be unable to free up resources badly needed to move them towards achieving the Millennium Development Goal of reducing extreme poverty in half by 2015.

One of the 18 non-HIPCs is Lesotho, a small land-locked African country. Upon learning of the MDRI debt cancellation agreement, Lesotho Finance Minister Timothy Thahane told Reuters that one of the reasons Lesotho was not classified as a HIPC country was that it had never defaulted on its debt. "It is important," he said, "that those who have paid their debts well, who run their mega-finances well, should be rewarded with debt forgiveness."

The debt cancellation provisions of H.R. 2634 would address the concern expressed by Minister Thahane and bring deep debt relief within the reach of virtually all the world's poorest countries. At the time of its introduction, Bishop Thomas Wenski, Chairman of the Committee on International Policy of the USCCB wrote to Reps. Waters and Bachus to express support for H.R. 2634. He said that despite important progress in debt reduction, "a substantial number of needy countries are not eligible for the existing debt relief initiatives. HR 2634 represents a major new step towards correcting this deficiency and making debt cancellation a reality for virtually all very poor countries that have participatory processes and financial management systems sufficient to assure that debt cancellation savings will be used to benefit the poor. We look forward to working with you and your Congressional colleagues to help complete the unfinished business of poor country debt relief."

Some of us argued in 2005 that the HIPC and MDRI programs should be expanded to include all countries qualifying for grant financing. Objections were raised in some quarters that making additional countries eligible for debt cancellation on the basis of their level of debt distress would create moral hazard problems, i.e., encourage countries to borrow more so that they would qualify. Of course, this argument would have applied also to the original HIPC program where entry depended on having high levels of debt.

In any event, H.R. 2634 avoids this objection by limiting eligibility for debt cancellation to IDA-only countries. Almost all of these countries have per capita incomes below the historical standard for IDA eligibility, which is $1065 in today's dollars. (IDA-only countries above this limit are primarily small island economies.) While this standard captures some countries with low levels of external debt, it includes only countries that have high levels of poverty and thus need to maximize the amount of resources they can marshal to promote human development and raise the living standards of their people. We believe that the IDA-only requirement is a reasonable standard for determining which countries should be eligible for debt cancellation.

What Will the Cost of the Debt Cancellation Be for the United States?

In response to requests, I have made a rough estimate of the amount of funds the U.S may need to commit through the next three IDA replenishment periods (FY 2008 through FY 2017) in order to finance the cost of H.R. 2634's debt cancellation. I am unable to provide a firmer estimate because much of the information required for an accurate estimate is not publicly available. For example, in calculating the cost of debt cancellation, the U.S. applies two factors

that reduce the cost below face value—net present value and a country risk discount. The 25% reduction I applied to the face value to reflect these two factors is only a very rough estimate.

Employing a number of assumptions—some of the main ones are discussed below— the cost to the U.S. of H.R. 2634 for IDA 15 (FY08-10) would be $1.5 billion, for IDA 16 (FY11-13), $3.5 billion and for IDA 17 (FY14-17), $2.4 billion.

An important assumption is that IDA and the other international financial institutions (IFI's) would be replenished "dollar for dollar" for the foregone principal and interest payments of the debt cancelled. This is the principle adopted for the MDRI and would be in line with the requirement of "additionality" contained in Section 3 (a) (5) of H.R. 2634.

The bill requires that, to the extent possible, the financing of debt cancellation costs should be provided from internal resources of the IFI's, e.g., by transferring net income from the ordinary capital operations of the World Bank to IDA. The IMF is financing its costs under the MDRI from internal resources (although funding for a few potential beneficiaries has not yet been identified). The assumption for purposes of the H.R. 2634 cost estimate is that the IMF will finance its costs entirely from internal resources (e.g., through the revaluation of a portion of its substantial holdings of gold). Thus, the cost of the IMF's debt cancellation is not included in the cost estimate. In the case of the World Bank, it is not possible to determine in advance how much its shareholders would decide could be transferred to IDA, and as the other IFI's are not as strong financially as the Bank, the cost estimate assumes a worst-case scenario, i.e., that the costs of the IFI debt cancellation (other than the IMF) are financed entirely from donor contributions. The U.S. share of these contributions is assumed to be 20%.

The cost estimate may also be overstated in another sense. There are 24 countries potentially eligible to receive H.R. 2634 debt cancellation. Nine of them have relatively good financial management ratings, as judged by the World Bank's latest Country Policy and Institutional Assessment (CPIA), and I have assumed that they would be the first to qualify for the new debt cancellation. The nine countries are Cape Verde, Georgia, Kenya, Lesotho, Moldova, Mongolia, Samoa, Vietnam and Vanuatu. To facilitate a complex calculation, I have assumed that the nine would receive debt cancellation in 2008, an additional nine in 2011, and the six weakest performers in 2014.

There is likely to be slippage in the assumed schedule given the need to reach an international agreement on new debt cancellation, and the time needed thereafter for the IFI's to actually grant the relief. (H.R. 2634 does not preclude the IFI's from requiring the countries to go through the "decision point" and "completion point" process applicable to HIPC's, but it precludes the IFI's from imposing "harmful economic and policy conditions" as specified in Section 4.) A slippage in the schedule would have two effects: first, the overall cost would be reduced as the countries would in the meantime be making payments on their outstanding debt; and, second, the amount required to cover cancellation costs during 2008-2010 (IDA 15) might be sharply reduced. (See additional key assumptions in the attached note.)

Also, Vietnam, although a large IFI debtor, may decide not to take advantage of H.R.2634 debt cancellation. It may not want to send a signal to the international capital markets that it needs

debt cancellation from the IFI's. Without Vietnam, the cost estimate for FY08-10 would drop almost in half, to $800 million, with smaller reductions in later years.

Debt Relief Is Part of a Broader Agenda

A final point that is important to emphasize is that while new debt cancellation would be a major achievement, debt relief is not a panacea. Even if the debt of poor countries were reduced to zero, it will not end poverty. The problem is too complex and deep-seated for that. It must be addressed first and foremost by the countries themselves, with their governments and people working together on a variety of fronts for the common good. But their resources are not sufficient for them to do it alone. They need aid and just policies from the wealthier countries.

Attachment to Testimony of Gerald F. Flood
Note on Cost Estimates

The cost estimates assume a "cut-off point" of 2005. In other words, the cancellation will apply only to the outstanding amount of fully disbursed and disbursing loans as of the end of 2005. (The cut-off point for the MDRI is 2003.)

It is assumed that the losses to IDA will be reimbursed in essentially the same manner as under the HIPC program, i.e., IDA will be reimbursed each year for the amount of debt service that it will not be receiving during that year because of the cancellation. The amounts included in each three-year IDA replenishment represent the amounts committed (in the case of the U.S. "appropriated") by the donors to enable IDA to have assurances that the necessary funds will be available to cover these losses year-by-year. These commitments are made in three year bites but are paid into IDA ("encashed") over a nine-year period. In effect, IDA plans nine years ahead when it determines the size of IDA replenishment it needs. The MDRI, however, was an unplanned event, so replenishments up to that point included no funds for MDRI reimbursement Thus, IDA 15 has to "catch up" by including all the funds necessary to cover the nine year planning horizon. By IDA 16 they would have caught up, so that IDA 16 (and subsequent replenishments) would only have to include funds necessary to cover an additional three-year period. It is assumed also that the reimbursements for the Asian and African Development Banks will be handled in the same manner as IDA.

Testimony by Neil Watkins, National Coordinator, Jubilee USA Network, to the House Financial Services Committee, November 8, 2007, Hearing on the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007 (H.R. 2634)

I'd like to thank Chairman Frank and Ranking Member Bachus, who together with Congresswoman Waters have been long-time champions of debt cancellation, and all the members of the committee for the invitation to share this testimony today. I come before you today as a representative of Jubilee USA Network. Jubilee USA is an alliance of more than 80 religious denominations, faith-based networks, development agencies, and labor, environment and community organizations working to generate the political will for more responsible lending and cancellation of unjust debts to fight poverty in Africa, Asia, and Latin America. Founded in 1997, Jubilee USA is the US arm of the global Jubilee debt cancellation movement. We are grateful for this committee's leadership in addressing the crisis of international debt and for many of its members' long-time support for the campaign for cancellation of impoverished country debt.

I. Debt Relief Efforts To Date

Impoverished countries in Africa, Latin America, and Asia have been struggling under the crushing burden of unjust international debts for decades. In the mid 1990s, Jubilee campaigners and partners across the globe, including members of this committee, united to bring attention to the debt crisis at an international level. This pressure led to a series of commitments from the United States government, other G-8 nations, and international financial institutions to provide debt relief for some of the world's poorest nations.

Since the creation of the IMF/World Bank Heavily Indebted Poor Countries Initiative (HIPC) in 1996, more than 30 nations have now received some form of debt relief. 22 nations have reached "completion point" in the HIPC Initiative and have received 100% cancellation of eligible debt stock.

In the United States, support for the debt relief provided to date has been bi-partisan and has come from both the legislative and executive branches. Congress has demonstrated its support for bilateral and multilateral debt relief through legislation and appropriations for debt relief initiatives for heavily indebted low-income countries in 1999, 2001, and again in 2003.

The Bush administration played a critical and leading role in creating the Multilateral Debt Relief Initiative at the G-8 Summit in 2005. President Bush himself highlighted the efficacy of debt relief in his State of the Union speech this year, stating "let us continue to support the expanded trade and debt relief that are the best hope for lifting lives and eliminating poverty."

Where previously only partial debt relief had been available, the Multilateral Debt Relief Initiative agreed to at the 2005 G-8 summit made possible for the first time 100% debt stock cancellation for qualifying debts owed by eligible poor nations to the IMF, the World Bank, and the African Development Bank. To date, 22 nations, including 18 in Africa, have seen the majority of their debts to the IMF, World Bank, and African Development Bank cancelled under

the terms of the MDRI. In March of this year, the InterAmerican Development Bank (IDB) joined the MDRI, and four Latin American nations have now received MDRI benefits from the IDB.

The twenty-two countries which have reached the completion point, and thus have benefited from 100% debt stock cancellation of qualifying debts include Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Tanzania, Uganda, and Zambia. An additional ten countries have reached "decision point" in the HIPC Initiative, and have begun to receive partial debt service relief. These countries are Afghanistan, Burundi, the Central African Republic, Chad, the Democratic Republic of the Congo, the Republic of Congo, the Gambia, Guinea, Guinea-Bissau, and Haiti. Eight more countries remain potentially eligible for the HIPC Initiative but have yet to enter the program: Comoros, Côte d'Ivoire, Eritrea, Liberia, Nepal, Somalia, Sudan, and Togo.[1]

How much debt has been cancelled to date? According to the most recent updates from the IMF and World Bank, debt relief committed under the HIPC Initiative and the MDRI to date is expected to reduce the debt stock of the 32 post-decision point HIPCs by a total of $96 billion.[2]

Debt relief fights global poverty efficiently and effectively by reducing the amount of debt service that nations pay each year to creditors. In 2006, the 19 post-completion point countries saved $559.4 in debt service payments thanks to the MDRI.[3] In 2007, annual debt service savings from the MDRI for the 22 post-completion point counties are expected to be $1.3 billion, equivalent on average to 1% of these countries' GDP.[4] Cumulative debt-service savings under the MDRI to post completion-point countries is expected to reach $21.1 billion.[5]

II. The Impacts of Debt Relief

Debt relief is delivering results in the fight against poverty. Total poverty-reducing expenditures in countries that have received debt relief have increased from $5.8 billion in 2000 to an estimated $17 billion in 2006, or from 7% to 9% of GDP on average.[6]

Citing 2005 World Bank research, the NGO Debt AIDS Trade Africa (DATA) found that for every dollar freed up from debt service, African governments have increased social spending by two dollars.[7]

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[1] World Bank, "Debt Relief At A Glance," www.worldbank.org/debt, updated October 2007.
[2] International Development Association (IDA) and International Monetary Fund (IMF), "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation," August 28, 2007, p. 9.
[3] IDA and IMF, "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation," August 21, 2006, p. 64
[4] IDA and IMF 2007, p. 7.
[5] IDA and IMF 2007, p. 8.
[6] IDA and IMF 2007, p. 7 and 69.
[7] DATA Report 2007, citing IDA and IMF, "Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Public Spending," April 12, 2005.

The impacts are most apparent at the country level. Thanks to the most recent round of debt relief under the MDRI in 2006:

- Cameroon is using its savings of $29.8 million for national poverty reduction priorities, including infrastructure, social sector and governance reforms;
- Ghana is using the $57.9 million in savings from 2006 in the energy and water sectors, for the rehabilitation of essential major highways and feeder roads in the main agricultural areas, as well as in education, health, and development of information and communication technology;
- Honduras is using its $27.6 million in 2006 savings for anti-poverty programs including the elimination of fees for public schools;
- Uganda is using its $57.9 million savings from 2006 on improving energy infrastructure to ease acute electricity shortages, as well as primary education, malaria control, healthcare and water infrastructure (specifically targeting the poor and under-served villages); and
- Zambia is using its savings of $23.8 million under the MDRI in 2006 to increase spending on agricultural projects, such as smallholder irrigation and livestock disease control, as well as to eliminate fees for healthcare in rural areas.[8]

I had the opportunity to see firsthand the impact of debt relief in Zambia earlier this year when I helped lead a delegation of a dozen Jubilee USA supporters to Zambia. On our first day in Zambia, we drove South of the capital Lusaka to a town called Siavonga, to witness the impacts of debt relief firsthand.

After a long, bumpy ride through the Zambian countryside, we arrived at the Siavonga Rural Health Clinic. As we toured the clinic, Grace Chibanda, a pharmacist, showed us the pharmacy, which was full of Anti-Retroviral drugs for HIV/AIDS. "Debt relief is a good thing," Grace told us. "It is getting medicines for people who didn't have it before."

In April 2006 with the proceeds from debt relief, the Zambian government abolished "user fees" in all rural health clinics in Zambia. This meant that where costs may have deterred the poorest from coming into the clinic, now care was free. Nurses and doctors we talked with confirmed that they had seen an increase in patients since April. It was inspiring to see the impacts of debt relief firsthand and to know that debt relief is improving the lives of many Zambians in need.

There are similar success stories elsewhere in Africa. In Tanzania, debt relief has helped nearly 2 million children access primary education. As former President Benjamin Mkapa explained in a letter to Jubilee Debt Campaign in 2004,

> When I became President of Tanzania in 1995, our country was witnessing a serious deterioration of basic services, and a high and unsustainable debt burden. One of my first priorities was to reverse these trends by increasing government revenue and seeking debt relief...In 2001, Tanzania was granted significant debt relief. As promised, this was directed to the priority sectors of education, health, water, rural roads and HIV/AIDS, enabling us to increase resources for poverty reduction by 130 per cent.

[8] IDA and IMF 2006, p. 64.

> We have already witnessed tremendous successes. The primary school population has increased by 66 per cent – the greater part of an extra two million children - and the shortfall in the enrolment of girls has been eliminated. We have built 45,000 classrooms, 1,925 new primary schools and over 7,500 homes for teachers in partnership with their communities; between 2000 and 2004, we recruited 37,261 new teachers, and retrained another 14,852. The pass rate in the Leaving Examination doubled in two years.
>
> Much has been attained in other sectors as well. For instance, hospitals are being rehabilitated and refitted with diagnostic equipment; the previous shortage of basic drugs is now history; and the rate of immunisation has reached 83 per cent. We are now introducing the Hepatitis vaccine and this will save 20,000 – 25,000 lives annually."[9]

As supporters and advocates of debt cancellation, we are encouraged by reports of positive impacts of debt relief on the ground. Arguments that resources freed up by debt cancellation would be diverted to military spending or corruption have not been borne out in practice.

That said, it is clear that we must continue to be vigilant to assure that proceeds from debt cancellation reach the most impoverished people, who lack access to health, education, or other essential services.

As we look for best practices to assure good use of released funds, we can examine successful models already in place. In Uganda, extra resources from debt relief are channeled through the Poverty Action Fund, which is overseen by representatives from government, national NGOs, churches, unions and international organizations. In Nigeria, the new Virtual Poverty Fund plays a similar role. These models can and should be replicated in other nations.

Moreover, we must support civil society and parliaments in their efforts to hold their governments accountable. Civil society and parliamentarians are especially well placed to assure accountability from national governments regarding the use of funds released by debt relief. While in Zambia, I saw firsthand the powerful role played by civil society groups such as Civil Society for Poverty Reduction, Jubilee Zambia, and others in pressuring the government to be more transparent and accountable for use of aid, debt relief, and new borrowing. Civil society is working in partnership with reform-minded parliamentarians in Zambia to put forward an agenda to make the budgeting process more transparent and participatory and to involve civil society in monitoring the implementation of poverty reduction programs financed by the national budget.[10] These efforts and others like them should be embraced and promoted by all those who advocate debt cancellation and responsible lending and borrowing.

[9] Letter from Tanzanian President Benjamin Mkapa to Jubilee Debt Campaign, 2004.
[10] Honorable Given Lubinda, Zambian MP, "Making Debt Work – The Zambian Challenge," Speech to Jubilee Prayer Breakfast, October 16, 2007, Washington, DC.

II. The Unfinished Agenda: Extending the Promise of Debt Cancellation

Debt cancellation now has a ten year record of success. We now know that debt relief – together with development assistance and trade policy -- is one of several critical tools with which to fight poverty.

But the reality is that even after the debt cancellation provided to date, the world's most impoverished nations continue to send $100 million *each day* to the United States government, other wealthy nations, the IMF, the World Bank, and other creditors.[11] It is time to extend the promise of debt cancellation to additional countries that require it to fight extreme poverty – provided these nations meet strict eligibility criteria and prove their ability to utilize released funds well.

Since 1996 and the launch of the HIPC Initiative, the governments of the world's most impoverished 66 countries have paid more than $230 billion to service their foreign debt, an amount exceeding the grants these countries have received from donor governments over the same period. Even with the progress made on debt relief in the past 11 years, the sad reality is that *the majority of these nations are still mired in a debt crisis.*

A January 2007 study by the UK charity Christian Aid examined data for 41 low-income countries that have **not** yet reached completion point in the HIPC Initiative (this group includes countries at decision point, and some pre-decision point countries, as well as more than other 20 low income countries not currently eligible for HIPC Initiative). The report found that only 10 of these countries have seen their annual payments on foreign debt decrease by more than 25% over the past 11 years. The majority of the countries examined – 23 of the 41 -- are actually paying **more** on debt servicing as a percentage of gross national income than they were 11 years ago. For the remaining 8 countries, debt service payments have decreased by less than 25%.[12]

It is these impoverished, low-income nations that have not yet reached completion point, and dozens of others that have been completely excluded from debt relief to date that the Jubilee Act for Expanded Debt Cancellation and Responsible Lending of 2007 would help.

While the HIPC Initiative and MDRI have made a difference in a number of countries, it is important to put the amount of cancellation provided by these initiatives in the proper context: The overall debt stock of low-income countries currently stands at about US$ 426 billion, more than 4 times the amount cancelled under HIPC/MDRI. The annual debt service arising from this stock is estimated at US$ 32.6 billion.[13] Middle income countries, which also have large populations living in poverty, face an even more severe crisis which Jubilee USA believes should be addressed as well, though they are beyond the scope of the current legislation.

[11] Oxfam International, "The World is Still Waiting," Oxfam Briefing Paper #103, p. 4.
[12] Christian Aid, "Enough is Enough: The debt repudiation option," January 2007, pp. 9 -10.
[13] Bernards Mudho, "Report of the independent expert on the effect of economic reform policies and foreign debt on the full enjoyment of all human rights," Report to the UN Human rights Council, Document #A/HRC/4/10, January 3, 2007.

A growing number of NGOs, governments and analysts are coming to the conclusion that debt cancellation should be expanded. As independent expert Bernards Mudho explained earlier this year in a report commissioned for the United Nations: "There...is a need for further comprehensive solutions to the debt problems of poor countries, including further debt relief by other multilateral institutions and for permanent solutions to the problems of bilateral and commercial debts."[14]

Expanded debt cancellation forms a critical part of efforts to meet targets that the United States and nearly every other nation in the world have set to halve extreme poverty within the next 7 years. Halfway to 2015, the world is still falling short of meeting the Millennium Development Goals. The World Bank and the United Nations have estimated that anywhere from $45-75 billion annually will be needed globally if we are to achieve the MDGs. Much of this can be committed from additional aid, but additional debt cancellation is critical as well.

Debt cancellation also makes our development assistance more effective. As Jeffrey Sachs and his team pointed out in the 2005 United Nations Millennium Project *Investing in Development* report, "Dozens of heavily indebted poor and middle-income countries are forced by creditor governments to spend large proportions of their limited tax receipts on debt service, undermining their ability to finance vital investments in human capital and infrastructure. In a pointless and debilitating churning of resources, the creditors provide development assistance with one hand and then withdraw it in debt servicing with the other."[15]

The UK government has already begun to extend debt cancellation to non-HIPC, low income countries that can prove their ability to use the released resources well.

As Chancellor of the Exchequer and current British Prime Minister Gordon Brown explained in January 2006, "Empowerment of the poor will be a false hope until the decades-old debt crisis is fully resolved. In December [2005], 100% multilateral debt relief was finally achieved for the first 19 highly indebted poor countries - and, despite prior worries, with no extra conditionality. In Britain's view, all 67 of the poorest countries should secure debt relief. By paying our share of their debt service, we will unilaterally lead debt cancellation for up to another 30 countries, and I will urge others to follow."[16]

The United Kingdom is currently delivering debt service relief under the "United Kingdom Multilateral Debt Relief Initiative." Under this program, the UK government goes beyond countries eligible for HIPC and pays its share (10%) of debt service payments owed to the concessional lending arms of the World Bank (IDA) and African Development Bank (AfDF) by low-income, IDA-only countries with suitably strong public expenditure management systems. Eight non-HIPCs currently qualify for UK MDRI: Armenia, Cape Verde, Georgia,

[14] Ibid.
[15] UN Millennium Project. 2005. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals.* New York.
[16] Brown, Gordon. "Our final goal must be to offer a global new deal," *The Guardian*, January 11, 2006.

Moldova, Mongolia, Nepal, Sri Lanka, Vietnam.[17]

The Jubilee Act would extend the promise of debt relief to well-governed nations who need cancellation to meet the Millennium Development Goals.

The Jubilee Act builds on the UK initiative, using the same group of impoverished nations – those eligible for "IDA-only" assistance from the World Bank -- as the pool of potentially eligible countries. The Act would make 24 additional low-income nations not currently eligible for the HIPC/MDRI initiatives potentially eligible for debt cancellation from the United States and the international financial institutions, provided they meet human rights, public financial management, and budget transparency criteria and demonstrate their ability to use the money well. To benefit, countries would also have to engage interested parties, including a broad cross-section of civil society groups, in the spending allocation process and produce an annual report on this spending, making it publicly available and easily accessible. Countries would be excluded from receiving the debt cancellation under the Jubilee Act if they:

- have an excessive level of military expenditures;
- have repeatedly provided support for acts of international terrorism;
- fail to cooperate on international narcotics control matters; or
- engage in a consistent pattern of gross human rights violations.

Civil society analysts have long complained that the criteria for eligibility for the HIPC Initiative fails to take into account the critical factor: poverty. By focusing on the debt-to-export ratio as one of the main eligibility determinants, the current debt relief initiative misses the boat. By contrast, the approach outlined by the UK government and in the Jubilee Act makes the main factors a country's per capita income and its ability to use released funds to fight poverty. By removing a country's debt burden as a determinant of eligibility, the Jubilee Act corrects the problem inherent in previous debt relief efforts when countries with less debt (whom, it might be argued, borrowed more responsibly) did not benefit, while highly indebted countries did.

Based on provisions in the act, we estimate that initially 9 nations would become eligible under the terms of this legislation -- Georgia, Cape Verde, Samoa, Vietnam, Kenya, Mongolia, Lesotho, Moldova, and Vanuatu. Up to 15 additional nations could benefit if they meet requirements around human rights, public financial management, and budget transparency.

What would debt cancellation mean for these countries?

Let's take Kenya as a case study. Kenya has a $7 billion debt and pays hundreds of millions each year in debt service while 1.3 million people are living with HIV/AIDS and many lack adequate treatment.

I had the opportunity to visit Kenya in early 2007 and to walk through Kibera, the large slum surrounding Nairobi. I was devastated by the level of poverty I saw there. It was truly shocking to think that amidst all the wealth in the world, the grinding poverty that exists in Kibera continues unabated.

[17] Correspondence from Christa Rottensteiner, Debt and IMF Team Leader at the UK Department for International Development, September 2007.

Unlike my trip to Zambia, however, I wasn't able to visit a clinic and observe the hopeful and impressive results of debt relief. This is because Kenya is not eligible for debt relief under the current program. This despite the fact that in Kenya, according to the Kenya Debt Relief Network, the 2005/2006 budget has allocated some 22% of government expenditure (112 billion Kenyan Shillings) to debt servicing. This amount is equivalent to the budgets of six other Ministries - Health (30 billion), Roads (28 billion), Water (10 billion), Agriculture (8 billion), Transport (11 billion) and Finance (25 billion).

Debt cancellation is a proven tool that has the potential make a real difference for countries like Kenya. It is the right thing to do. It is also a good investment in the security and image of the United States abroad.

III. Reforming the Process and Moving towards Responsible Lending

As we expand debt cancellation, however, we must pay attention to the lessons of the past 11 years and make changes accordingly in the way debt cancellation is delivered – and crucially, how future lending is provided.

That is why the Jubilee Act is not just about expanding eligibility for debt cancellation to additional nations. It is my view that if we merely expand debt relief without addressing the serious problems plaguing the current initiative and getting the future lending question right, we will not see the benefits we are hoping for.

End Harmful Conditionality

First, it is urgent that we address some of the serious failures of the debt relief process to date. Foremost among them are the harmful economic conditions that impoverished nations must adhere to in order to advance to completion point in the HIPC Initiative.

In order to advance to completion point, HIPCs have to meet 10-20 different "trigger conditions." These generally include reforms of public expenditure management and governance, meeting health and education targets, and so-called "structural reforms" which include instructions on how to run various sectors of the economy or government, including enforcing privatization of select industries or utilities; and trade and financial sector liberalization through removal of tariffs or deregulation. Beyond these specific HIPC conditions, all HIPCs must progress with a Poverty Reduction Strategy Paper (PRSP) and have the IMF certify that they are "on-track" with an IMF "Poverty Reduction and Growth Facility" (PRGF) loan. The requirement to be on track with the IMF is critical: if the IMF declares a country "off track," it cannot reach completion point, and its interim debt relief is suspended.[18]

PRGF loans include many conditions such as maximum levels of inflation and public spending, levels of currency reserves, and limits on public wage bills. These requirements give the IMF power to set levels of spending in a range of sensitive sectors for impoverished countries. A

[18] Jubilee Debt Campaign (UK), "Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation," London: October 2006.

growing number of analysts have criticized the IMF for being overly stringent with their requirements for low inflation, limited public spending, and high currency reserves. In fact, in their PRGF programs in 2005, Burundi, Democratic Republic of Congo, Congo and Sierra Leone all had targets for their 2005 budget deficits which were lower (as a percentage of GDP) than the US or UK managed to achieve that year. For countries like these that need to ramp up spending to fight AIDS, provide education, and clean water, IMF recommendations have become a straightjacket.[19]

Research by the Jubilee Debt Campaign (UK) found that in order to access debt cancellation under the HIPC Initiative:

- Zambia had to privatize its national bank in the face of parliamentary and public opposition. IMF policies also forced it to restrict public sector spending through a wage and hiring freeze, leaving it unable to employ 9,000 teachers;
- Nicaragua had to privatize electricity. Electricity prices rose by 200%, pricing the poor out of the market, and blackouts became frequent.
- Sierra Leone has had to prepare for privatization of 24 state enterprises, including water, power, and telecommunication.[20]

I had the opportunity to travel to Nicaragua in November 2006 when I saw firsthand the impacts of electricity privatization there. I visited a rural community of 350 people called Ramon Garcia. The people of Ramon Garcia told me their story of struggle with Union Fenosa, the Spanish company that took over electricity in Nicaragua. When I met with community leaders in Ramon Garcia, they told me that they had recently been without electricity for 6 months due to a broken transformer in the area. During that time, members of the community called the company every day and it wasn't until they marched and protested at the company's regional office in Matagalpa that the company came in and replaced their transformer. But it only lasted 3 days because the replacement was faulty as well. The community called again and again. Finally, they decided to raise money to buy their own transformer. Through this whole time, Union Fenosa continued sending bills to the citizens of Ramon Garcia.

What I saw in Ramon Garcia underlines the plight faced by rural communities across the globe that need access to electricity, water, health, and education. Fundamentally, in no small part due to the fact that these communities consume relatively little electricity, corporations don't make much money by serving them. So they don't pay attention to their needs. Given this reality, it would seem irresponsible for the IMF and World Bank to require nations to privatize such industries as a condition of debt relief.

Sadly, privatization has been an all too frequent requirement of debt relief. An analysis of IMF and World Bank documents conducted by Jubilee Debt Campaign (UK) in 2006 found that of the 29 countries that had gone or were going through HIPC at the time of the study, 19 had to privatize state enterprises to get debt relief.[21] Regardless of one's views on the efficacy of

[19] Ibid, p. 9.
[20] Ibid, p. 4
[21] Ibid, p. 6. See also Jubilee Debt Campaign (UK), "Tightening the chains or cutting the strings? The status of HIPC conditionality in 2006," September 2006. This paper analyzes and lists specific IMF and World Bank loan documents which outline conditions related to privatization.

privatization, our argument is that these policies should not be requirements for debt cancellation. Countries should be allowed to make their own development choices, in collaboration with civil society and parliaments, about sensitive issues like these.

In 2005, G-8 leaders met in Gleneagles, Scotland, and seemed to agree that developing countries should have more policy space and autonomy to make economic choices for themselves. The G-8 said: "It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan, and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people."[22]

A growing number of governments and intergovernmental bodies, including the United Kingdom, the European Commission, and Norway, are raising concerns about the harmful impacts of economic policy conditionality, joining civil society groups from across the globe that have raised similar concerns for more than two decades.[23]

While the type of economic conditionality described above should not be required as a condition of debt cancellation in the future, it is vital that funds released by debt cancellation are used transparently in the fight against poverty. We need to distinguish between harmful conditionality and legitimate requirements for transparency – by both governments who receive debt cancellation and the international financial institutions that are making loans. We must also work to ensure that money released by debt cancellation be spent to fight poverty.

The Jubilee Act would prohibit specific harmful economic and policy conditions while insisting on transparency and accountability. The prohibited harmful conditions include user fees for primary health care and education, increased cost for the poorest for clean drinking water, measures that compromise workers' rights, and IMF constraints on government spending for essential health care and education.

Address the Practices of 'Vulture Funds'

A second serious challenge to the debt relief process to date has been the fact that a number of commercial creditors, especially distressed debt or "vulture" investors, are clawing back some of the limited gains of debt relief.

The existence of vulture funds is not a wholly new phenomenon. In the late 1990s, Elliot Associates successfully sued the government of Peru and won $55 million. But as a growing number of Heavily Indebted Poor Countries (HIPCs) have received debt cancellation, vulture fund suits are coming more frequently now. Suddenly these nations have more access to cash freed up by debt cancellation – and thus look more attractive to opportunistic vulture funds.

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[22] G-8 Communiqué, July 8, 2005.

[23] The UK government adopted a policy against requiring privatization and trade liberalization as a condition of its aid in 2005. The Norwegian government has a similar policy based on its 2005 Soria Moria declaration. See. e.g., Benedicte Bull et al, "The World Bank and IMF's use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices," report prepared for the Norwegian Ministry of Foreign Affairs as a background for the Oslo Conditionality Conference, November 2006.

An August 2007 report by IMF and World Bank staff found that 11 out of 24 poor countries approached said they were involved in litigation by commercial or vulture creditors worth a total of $1.8bn with 46 creditors.[24]

The most recent and visible vulture fund case has been that of Donegal International, Limited vs. the government of Zambia. In 1979, Zambia purchased agricultural equipment and services from Romania on credit. Being unable to service this debt, in 1999 Zambia and Romania agreed to liquidate this debt for $3.28 million. But before Zambia could seal the deal, a vulture - Donegal International - swooped in.

Donegal International, Limited is registered in the British Virgin Islands. Its only business is to pursue the Zambian debt. Donegal's sole director is Michael Sheehan, who owns a company called Debt Advisory International, based in Washington DC. Mr. Sheehan bought this debt for $3.28 million and later sued the Zambian government for $55 million. On April 24th, the British High Court ruled that the government of Zambia would have to pay Donegal some $15 million. This represents over 40% of what Zambia is projected to save in debt relief delivered through HIPC and the MDRI in 2007.

It is important to note that vulture creditors are not the only creditors that are taking advantage of or "free-riding" on debt relief: other creditors, including non-Paris Club official creditors, smaller multilateral creditors, and quasi-commercial lenders, must also be addressed and encouraged to cancel their claims on impoverished countries.

A number of these creditors are suing African countries. Research by Matthew Martin, Director of UK-based Debt Relief International, found that 14 countries in Africa have been have been subject to legal actions by commercial creditors, vulture funds, and others since 1999. The debtor governments have almost always lost.

Consider the human cost of these lawsuits. In Niger, for instance, the government spent more than half of what it spent on health and education combined on lawsuits (US$76.5 million) in one year.

At this very moment, Cameroon, Democratic Republic of Congo, Republic of Congo, Uganda, Sierra Leone, Nicaragua, Honduras and Liberia are facing judgments to pay, pending suits, or the threat of litigation from vulture funds or other commercial creditors.[25] Action is needed now so that what happened to Zambia will not happen to other nations.

The Jubilee Act calls on the Secretary of the Treasury to collaborate with appropriate government agencies to stop the practices of vulture funds by designing legal remedies to curtail vulture fund activity; by providing legal support to countries being sued by vulture funds; and by providing technical assistance to advise governments likely to be targeted by vulture funds. These measures represent a critical first step to address this problem.

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[24] Larry Elliott, "Vultures in pursuit of £1bn threaten debt-relief deal," *The Guardian*, October 22, 2007 citing figures in IDA and IMF 2007.
[25] IDA and IMF 2007, p. 95.

Ultimately, even more will be required. First, the World Bank's Debt Relief Facility should be expanded to buy back at risk debt for pre-decision point countries, and it should allow countries to return for additional support. Second, because more than two-thirds of the lawsuits brought against indebted countries by vulture funds and other commercial creditors are heard in courts in the United States or United Kingdom, the United States should take the lead by outlawing profiteering by vulture funds in US courts.

Establishing a Framework for Transparent, Responsible Lending

One of the greatest challenges facing nations that have received debt cancellation under existing initiatives is the range of new lenders which threaten to send countries that benefit from debt relief back into unsustainable debt. To ensure that this doesn't happen, the Jubilee Act calls on the Secretary of the Treasury to:

- Provide that the external financing needs of low-income countries are primarily met through grants rather than new lending;
- Develop and promote policies to ensure that *all* creditors work together to preserve the gains of debt relief;
- Promote the adoption of a legal framework, binding on *all* creditors, and overseen by an independent body with significant input from affected communities to guarantee that no future creditor can take advantage of debt relief through the terms of their new lending (known as free-riding) and to ensure that free-riders would pay their share of future debt relief made necessary in part by their irresponsible lending.

These measures are critical to ensure that debt relief does not need to be repeated and that countries can get on a path to sustainable growth and development.

Responsible Finance, Odious Debt, and Debt Audits

The Jubilee Act also calls on the Secretary of the Treasury to "support the development of responsible financing standards in which creditors and aid/loan recipients alike adhere to standards to assure transparency and accountability to citizens, human rights, and the avoidance of new odious debt…"

Any effort to put ensure more responsible lending in the future should begin with an examination of past practices. This is imperative in order to learn from past errors and ensure more responsible and productive lending and borrowing policies moving forward.

Many of the debts of impoverished nations are odious or illegitimate in nature – they are debts accrued by undemocratic regimes or that did not benefit the population. Often these loans were irresponsibly made by the United States and other creditors – for example, as a way to win allegiance and support during the Cold War.

There is growing awareness of the problem of odious, illegal, onerous, and illegitimate debt from civil society, academics, legal scholars, governments and international institutions. In October 2006, Norway became the first creditor to accept co-responsibility for past lending mistakes and cancelled the debts of 5 nations on the grounds that the loans reflected poor development policy.

In August 2006, the World Bank published its first ever study of the concept of odious debt, though civil society have criticized the paper because of its dismissive tone and the lack of a robust peer review process. UNCTAD has just published a similar paper which finds that there are often strong grounds to make the case that a debt is odious. The paper concludes that there is no obvious legal forum for the adjudication or settlement of claims of odiousness but that such claims might appropriately be raised in bilateral or multilateral negotiations on debt relief, or they could be adjudicated in the context of arbitration or domestic litigation.[26]

The Jubilee Act addresses the problem of odious and unjust debts by requiring the Comptroller General of the US to undertake audits of debt portfolios of previous regimes in countries where there is accepted evidence of odious, onerous or illegal loans, such as the Democratic Republic of Congo and South Africa. Such audits should consider debts owed to the World Bank, IMF, and other multilaterals, as well as export credit debts owed to governments, and commercial creditors, and assess whether or not past investments produced the intended results. Furthermore, such audits would investigate the process by which the loans were contracted, how the funds were utilized and their product, and determine whether US and/or international laws were violated in the process. The audits should be planned and executed in a transparent and consultative manner, engaging Congressional bodies and civil society groups in the countries in question. This audit is a critical first step among a range of efforts needed to address failed policies of the past and move towards greater responsibility in lending.

Thank you for your attention.

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[26] World Bank, *"The Concept of Odious Debt: Some Considerations,"* Discussion Draft, September 7, 2007. UNCTAD, "The Concept of Odious Debt in Public International Law," Discussion paper 185, September 2007.

CV
NEIL WATKINS

PROFESSIONAL EXPERIENCE

Jubilee USA Network, Washington, DC, January 2005 – Present
National Coordinator

- Raise the annual operating budget, and create the annual fundraising strategy with the Board of Directors (Coordinating Committee).
- Envision a strategy for growth of the organization and of the debt cancellation movement in the United States, with the aim of achieving definitive debt cancellation for countries, and work collaboratively with and on behalf of the members of the Network Council, Jubilee South, and other partners to take us there.
- Serve as lead spokesperson and representative of Network before government agencies, Congress, policymakers, and the media. Testified before the Africa and Global Health Subcommittee of the House Committee on Foreign Affairs on "The Impact of Vulture Funds in Africa" in May 2007.
- Provide leadership and management oversight of Jubilee's operations and supervision of an empowered staff team
- Work to cultivate and manage an active Coordinating Committee to ensure compliance with Jubilee's fiduciary duties; meet and exceed program, fundraising, and organizing goals; undertake effective institutional planning and functional staff/board collaboration; and ensure that the mission, vision, and values are embodied in all processes of the organization.

Jubilee USA Network, Washington, DC: October 2003 – December 2004
Outreach and Communications Coordinator

- Conceived, developed, and implemented Jubilee USA campaigns and organizing strategies.
- Led campaign communications work including writing monthly e-newsletter; maintained contact with Network Council members and local organizers; and oversaw website content and education and action materials.
- Performed outreach to Jubilee allies, engage new constituencies, and represented the Network at local, national and international public fora, conferences, and events.
- Developed and implemented media and external communications strategy, maintained relationships with reporters, wrote and distributed media materials, and served as organizational spokesperson.

Center for Economic Justice, Washington, DC: May 2000 – October 2003
Campaign Coordinator

- Developed and implemented campaign strategy, working closely with international partners, U.S. Network members, and CEJ colleagues.
- Directed media outreach for the campaign by serving as lead media spokesperson, organizing press conferences, promoting international and U.S. Network members for media interviews, and writing and distributing press releases and other promotional materials.
- Planned and conducted outreach to religious institutions and communities, labor unions, foundations, socially responsible investors, and locally elected officials to encourage their support for resolutions for World Bank reform.
- Oversaw design and write content for website, campaign listserves, and other public education materials.
- Delivered presentations at national and international conferences, meetings, and skillshares.

- Represented organization in coalitions and networks including the Jubilee USA Network, and the Religious Working Group on the IMF/World Bank.

Center for Economic and Policy Research (CEPR), Washington, DC: December 1999 – May 2000
Research Associate
- Wrote and edited briefing papers, fact sheets, and other educational and outreach materials on international economic policy issues relating to the World Bank, IMF, and international debt.
- Provided research support for co-Directors, including for books and newspaper/periodical articles.
- Wrote, edited, and designed CEPR press releases and public relations materials.

Preamble Center, Washington, DC: October 1997 – December 1999
Research Associate/MAI Project Coordinator
- Organized several debates and press events on globalization, the IMF and World Bank, and Social Security attended by members of the media, the public interest community, and academics.
- Co-authored several briefing papers, including "A Survey of the Impacts of IMF Structural Adjustment in Africa: Growth, Social Spending, and Debt Relief," and "Recent Experience with International Financial Markets: Lessons for the Free Trade Area of the Americas (FTAA).
- Spoke on globalization at conferences and on college campuses.

RESULTS, Washington, DC: June – August 1997
Global Legislative Intern
- Wrote and coordinated the production of a World Bank information/action packet used by Results activists from six countries in advocacy meetings with Bank Executive Directors and Vice Presidents. Supported grassroots volunteers with information and action plans as they lobbied Congress to support microcredit, village banking for the poor, World Bank reform, and other initiatives.

Environment and Development Action (ENDA), Dakar, Sénégal: December 1996 – May 1997
Intern, Habitat and Environment Team
- Worked with team on sustainable sanitation project and women's community savings bank in Dakar region. Wrote and edited articles in French/English about environmentally sustainable housing and sanitation issues for two ENDA publications.

EDUCATION

Georgetown University, School of Foreign Service, Washington, DC: 1998
B.S. in International Affairs; Culture and Politics Division, Certificate in African Studies.
Cum laude; Recipient of Annual African Studies Award

Université Cheikh Anta Diop, Dakar, Sénégal (West Africa): 1996 – 1997
Faculté des sciences économiques et juridiques (School of Economics and Law)

LANGUAGE

French (written and spoken proficiency)
Wolof (limited conversational)

Testimony of
Emira Woods
Foreign Policy In Focus
Institute for Policy Studies

November 8, 2007

House Committee on Financial Services

In a world of plenty, poverty can and must be eliminated by changing the structural imbalances that create and maintain impoverishment in Africa and around the world." African economist, Samir Amin.

Chairman Frank, Ranking Member Bachus, distinguished members of the House Committee on Financial Services, I would like to thank you for the opportunity to testify in this hearing on H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Relief of 2007.

My primary focus today will be to explain why I feel so strongly that debt cancellation should be granted without the harmful conditions of past debt initiatives. My testimony is based on both my professional and personal experience. I'm originally from Liberia and have seen firsthand the painful burdens of debt on my own family.

Congress and the President of the United States took a huge step forward 10 years ago when they stated that it was a moral imperative to give poor people in poor nations debt relief. Political leaders, included those in Congress, stated emphatically that it was simply wrong that poor people be burdened with repaying debts incurred by rich and often irresponsible leaders. Yet today we recognize that the bold steps for debt relief of a decade ago did not go far enough. Previous schemes left many countries out and burdened eligible countries with onerous and harmful conditionalities. The Jubilee Act before you today will extend debt cancellation to all impoverished countries that need relief to meet their Millennium Development Goals. On average, low-income countries spend about $100 million a day just to pay the interest on their external debts, vital resources that could instead be spent on education, healthcare, housing, and other essential services. The Jubilee Act would bring relief to many of these countries where debts were accrued by dictators and have been paid many times over through high interest payments. The Jubilee Act would also remove harmful conditions attached to debt relief schemes of the past.

In this testimony, I will:

1) Share a personal story of the impact of debt;
2) Review the harmful impact of current debt relief conditionality; and
3) Present recommendations for more significant debt cancellation

I. Human Costs of Debt and Conditionality:

Anna's narrative

Please allow me to begin by sharing the story of my 22 year old cousin. For the sake of this testimony and to protect her identity, I'll call her Anna. I met Anna two years ago when I went home to Liberia after the decades of war. Anna had also just returned home after living much of her life in a refugee camp in Ghana called Bujumbura. At 20 years old, Anna had already experienced more of the direct impact of debt and conditionalities than a room full of economists. My aunt and uncle had left Liberia for Ghana on foot when the war started in 1990. Anna was just 5 years old. The ruthless dictator Samuel Doe accrued debt as he used U.S. taxpayer monies in the form of Reagan era "loans" to train and equip an army that he then unleashed, mostly on innocent civilians. Charles Taylor unseated Doe and continued the ruthlessness until over 250,000 Liberians had been killed and Doe's debt had ballooned to $3 billion. Anna and many of my relatives spent the decade of the 1990s in and around that refugee camp in Ghana.

Ghana was approved for its first Economic Structural Adjustment Facility loan in May 1995. In that year the agreement led Ghana to s begin selling (i.e. privatizing) 14 state owned enterprises. Massive job losses at Ghana airways, Ghana Railways, and the Electricity Company of Ghana, among many others, were the result. With Ghanaians forced out of jobs, the job market for Liberian refugees was of course much worse. My aunt and uncle could not find work in spite of their graduate degrees. Little Anna, then barely 10 could no longer go to school. This was because the conditions of the International Financial Institutions had suggested that the Ghanaian government impose user fees on the students at community schools. At the age of 13 my cousin practically lived in the streets. On Sunday afternoons, as my aunt went to church, Anna and other teenage girls would parade around the camp, scantily clothed. Waiting for older men, many of whom did not live on the camp, to solicit them. This was their "employment," since school was no longer an option. When we met two years ago, Anna had two children, the eldest born when she was just 15. Anna returned to Liberia, ready to start her life anew. But as Liberia repays its debt to the international financial institutions, there are no functioning hospitals. I fear that Anna may be one of the many undiagnosed yet living with HIV/Aids. And the same conditionalities that denied her an education may now keep her from treatment. Unless Liberia is able to spend its scarce resources on health, education and basic services for its citizens, Anna's children will continue to pay the heaviest price for the debt of dictators and the conditionalities of the international financial institutions.

II. The Harmful Impact of Current Debt Relief Conditionality

Anna's story can be told in country after country throughout the continent. The story of debt in Africa begins in the late 1960s and it is not a pretty story. In many countries, undemocratic governments began borrowing large amounts of money from official

sources (governments and multilateral institutions) and from other private sources. Much of this money went into boondoggles that benefited large multilateral corporations, built military machineries, or massaged the egos of dictators; small amounts went into real projects that benefited Africans.

The debt crisis emerged in the 1970s and 1980s when interest rates were high globally and commodity prices were low, and country after country experienced difficulties in repaying the debts. At this stage, the creditors invariably sent in the International Monetary Fund to press for countries to shift policies towards exports and towards privatization of key state assets, all with the goal of getting the loans repaid. The poor and the environment paid a heavy price.

Happily by the late 1990s, Jubilee and other movements won the debate that much of this debt should be cancelled. And, governments at the G-8 meetings and elsewhere devised a Heavily Indebted Poor Country (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI) to carry out the debt relief. To participate in these debt initiatives, a country must qualify as a low-income country and follow a World Bank mandated Poverty Reduction Strategy Paper and an IMF program called the Poverty Reduction Growth Facility (PRGF). There were however two big problems: First, many poor countries were left off the list of eligible countries. Second, eligible countries were forced to commit to a set of substantial and onerous reforms commonly called conditionalities. Implementation of conditionalities was necessary to advance through the process toward an eventual completion point and debt relief.

A) Limited countries selected for HIPC

The World Bank and the IMF manage the HIPC initiative covering bilateral, multilateral, and commercial debts. To be eligible, a country must be poor enough and indebted enough – defined as having debts worth 150% of exports or for countries with heavy export-based economies, more than 250% of government revenue. To enter the scheme, a country must comply with and IMF program for 3 years. It then is eligible for debt "relief" – defined as paying less service to a number of its debts, although no debts are actually cancelled. A country reaches "decision point" only when key conditions are met, that is the list of conditions that country must meet prior to getting debts cancelled completely (completion point).

B) Conditionalities

The countries going through HIPC have on average between 20-30 trigger conditions they must meet. These vary by country but generally include structural reforms that tell countries how to run various sectors of their government. One key area of reforms enforce privatization of certain industries or utilities. This is often the selling off of natural resource rights or of core services like water, telecommunications, schools, and hospitals, vital services that should fall under the role and responsibility of any sovereign state. Of the countries going through HIPC now, Burundi, Chad, Gambia, Sao Tome and Principe, and Sierra Leone have all been told to privatize as

condition for debt relief. A 2006 study by the European Debt and Development Network found that typically one in five of the structural conditions in each IMF program involves privatization. The Gambia offers perhaps the best example. The Gambia pays more than $25 million a year in debt service. With an economy heavily dependent on peanuts, the IMF told the Gambia that it must privatize its peanut industry. Well the Gambia had done just that in 1993 when it sold the state peanut company to a Swiss-based multinational corporation. The sale led to the loss of over 10,000 jobs and after privatizing, the Gambia became a net importer rather than a net exporter of peanut based cooking oil, directly impacting the health and nutrition of people throughout the country. The Gambian government re-nationalized the industry in 1999. Since then, the IMF has been pushing re-privatization, in spite of the direct experience of this flawed policy. (See The Gambia: 2005 Article IV consultation Staff Report, IMF, 2006)

In the case of Mali which had conditions tied to their Poverty Reduction Strategy Papers and to their PRGF arrangement with the IMF, conditions of privatization included water, banking, telecommunications, and agriculture especially companies dealing with cotton, Mali's biggest export earner. Mali sold off its water rights to the French company SAUR in 2000. The process forced impoverished communities to pay for access to clean water. In a few short years, there were numerous complaints of mismanagement and claims by the Malian government that the company had failed to run the water services according to contract. By 2005, the Malian government re-nationalized water and were seen as "off track" by the IMF.

Another key area of imposed conditions deregulates trade, banking or financial sectors. A 2006 report prepared for the Norwegian government as a background to the Oslo Conditionality conference found that, " Liberalization conditionalities are far less common in current IFI programs than they used to be, however they still figure in a significant number of programs."

Other conditions imposed relate to macroeconomic targets such as maximum levels of inflation and of public spending and limits on public wage bills. Through these conditions, the IMF controls how much a country spends and on what.

These conditions are inherently undemocratic as they give more power and control over key economic decision-making to external actors instead of the citizens and their elected officials in the developing world.

Yet if a country does not meet these conditions, the IMF can declare them, "Off-track" which would suspend interim debt relief and remove the option of reaching completion point and final debt cancellation. Of the 9 countries at "decision point" in HIPC now, most have been off track at some point.

The IMF sits as the general arbiter of economic policies for countries saddled with burdensome debts. Not only are their debts not being cancelled but the policy

conditions imposed for debt relief are creating fundamentally unsustainable economies and undemocratic political systems.

III. Recommendations

I urge this committee to support the efforts of the Jubilee Act to Fix Flawed Debt Relief; Cancel all odious debts; and - Eliminate the threat of debt vulture funds

A) Fix Flawed Debt Relief by removing harmful conditionalities

This committee can take immediate steps to fix flawed debt relief schemes by supporting this bill and removing harmful conditionalities attached to debt relief. These conditions have held back the continent's growth and prosperity. Under the guise of debt relief, the international institutions found a foolproof way to impose multinational corporations on Africa's water, electricity, education, and health systems, bringing higher fees and even further impoverishment to the region.

The 2005 report of the Blair Commission for Africa stated that, "Many Africans feel [that creditors] are now using debt as a lever to dictate policy to the country". The UK government hosting the 2005 G-8 meeting went further as they stated that policy conditions attached to aid are "inappropriate and ineffective". Acknowledging this, the G-8 communicade promised to let countries determine their own economic development. Yet 2 years later, countries are still being told that they must meet economic policy conditions to get debt cancellation.

In a recent report, "Cut the strings", the Jubilee Debt campaign, Action Aid and Christian Aid stated that "debt cancellation is [still] being used as a lever to force through policies chosen by institutions controlled by the rich world, a process that undermines democracy, delays debt cancellation and has often worsened poverty". Now is the time to examine critically the factors contributing to debt and the downward pressure of African economies. Removing harmful conditionalities is a critical step in addressing the root issues of Africa's debt problems.

B) Cancel Odious Debt – Africa has already paid enough!

The UN Conference on Trade and Development, in a comprehensive report on debt sustainability, noted that between 1970 and 2002, Sub-Saharan Africa received $294 billion in disbursements, paid our $268 billion in debt service and yet remained straddled with a debt stock of some $210 billion.

Ten years after implementation of limited debt relief, $100 million a day is squeezed out of Africa in debt service payments to the rich world. This daily transfer siphons off scarce resources to tackle HIV/AIDS and other priority concerns of the continent. In fact, African nations are still paying more in debt service payment to the United States and

other creditors than they receive in aid, new loans, or investment. In addressing Africa's struggle for relief from its onerous external debt, advocates of global justice have raised a critical question, "Who owes whom"?

What is needed is acknowledgement and cancellation of all odious debt

Under the principle of odious debt, debts are regarded as illegitimate when the creditor is aware that the loans to governments are made without consent of the people and not spent in their interests. The U.S. was the first to use this doctrine repudiating Cuban debt owed to Spain in 1898. More recently, the Bush administration has used the same argument for Iraq. Africa's odious debts, in Liberia and elsewhere, need comprehensive and complete cancellation, with no onerous conditions.

c) Eliminate the Threat of Debt Vulture Funds

In countries like Zambia and 22 other sovereign states, a new set of rich actors is undermining the moral promise of debt cancellation. These "vulture funds" threaten the gains of debt relief as they enrich themselves through predatory litigation against impoverished countries.

Congress should establish internationally binding legal constraints on the operations of vulture funds that prey on impoverished countries and undermine international debt relief initiatives. Congress should also work to apply legal constraints and if needed prosecute fully all aspects of corrupt practices linked to such cases.

Thank you for convening this critical hearing and for your sustained leadership on this issue. Debt has kept Africa in bondage long after the end of slavery and colonialism. This legislation could help break those chains. It won't solve all of the problems of the world's poorest countries. And it won't give my cousin her childhood back. But it will give these struggling nations a better chance of building strong, secure and healthy societies.

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